Austria Sch22; Bahrain Din0.650; Belgium BFr48; Canada C$1.00; Cyprus C£0.90; Denmark DKr10.00; Egypt E£2.25; Finland Fmk7.00; France FFr6.50; Germany DM2.50; Greece Dr120; Hong Kong HK$12; Iceland Kr125; India Rup15	Indonesia Rp3100; Iran Ri450; Italy L1700; Japan Y600; Jordan Fils500; Kuwait Fils500; Lebanon L$125.00; Malaysia Rin4.25; Mexico Pes3000; Morocco Dh10.00; Neth Fl2.50; Nigeria N4.00; Norway NKr10.00	Philippines Peso40; Portugal Esc120; S.Arabia Rls7.00; Singapore S$4.10; Spain Pta145; Sri Lanka Rup30; Sweden SKr9.00; Switz SFr2.30; Taiwan NT$65; Thailand Bt50; Tunisia Din0.650; Turkey L600; UAE Dh6.50; USA $1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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CHINA
Brakes come off the car industry
Page 16

World News

Parkinson reaffirms British Coal privatisation

British Energy Secretary Cecil Parkinson, speaking at the annual conference of the ruling Conservative Party, declared the government's intention to privatise the state-owned coal industry after the next election – underlining government determination to withdraw almost completely from industrial and commercial activities. Page 16

Algerian referendum
Constitutional changes in Algeria, involving "a new organisation of the executive," are to be put to popular vote in a referendum after recent anti-Government rioting. Page 3

SA church blaze
Arsonists set fire to the headquarters of the South African Catholic Bishops' Conference in Pretoria. Anti-apartheid activists linked the blaze to other recent attacks on government opponents. Page 3

EC-Israel accord
The European Parliament approved by large majorities economic and financial agreements with Israel, ending 10 months of delay and avoiding a big diplomatic rift between Brussels and Tel Aviv.

Chile poll planned
Chile's military ruler, General Augusto Pinochet, defeated in a plebiscite on granting him a further eight years in power, plans direct presidential and parliamentary elections for December next year. Page 4

BCCI arrest
A senior executive of Bank of Credit and Commerce International in Paris was reportedly under questioning by British customs officers in connection with allegations of international drugs money laundering. Page 4

Franco-Soviet talks
Soviet Foreign Minister Eduard Shevardnadze wound up three days of intensive talks in Paris which have marked a substantial warming of Franco-Soviet relations. Page 2

India death warrants
An Indian judge ordered the execution of two men involved in the 1984 assassination of Prime Indira Gandhi, after rejection of appeals by the Supreme Court. No date was set.

Afghan olive branch
Afghan Prime Minister Mohammad Hassan Sharq offered to meet former King Zahir Shah in Rome and invited other exiled leaders for talks aimed at ending the war with mujahideen rebels.

Frontline spy trials
Three alleged South African agents pleaded not guilty to involvement in a car bombing attack against the ANC anti-apartheid organisation in Zimbabwe.

Czech reshuffle
Czechoslovakia's President Gustav Husak named Ladislav Adamec to lead a reshuffled government, after the resignation of former Prime Minister Lubomir Strougal and his cabinet earlier this week. Page 2

Gelli for Strasbourg
Licio Gelli, former leader of Italy's illegal P2 masonic lodge, said in a newspaper interview that he intended to stand for election to the European Parliament.

Business Summary

French banks force revision of Al Saudi rescue plan

FRANCE'S banking authorities had to revise their rescue plan for the troubled Al Saudi Banque in the face of concerted criticism by leading French banks. Senior officials were yesterday negotiating a large increase in the contribution of Al Saudi's major creditors, and cutting by about twothirds the sum demanded from the rest of the French banking sector. Page 17

EASTERN Airlines, strife-ridden subsidiary of Frank Lorenzo's Texas Air, agreed to sell its prized US East Coast shuttle operation to New York property tycoon Donald Trump for $365m. Page 17

RACAL Telecom, mobile telecommunications subsidiary of Racal Electronics, was valued at £1.7bn ($2.9bn) for its flotation on UK, US and European stock markets. Lex, Page 16; details Page 17

BRITISH Gas took forward its programme of international diversification with a successful $194.5m bid for a mixed batch of Tenneco international oil and gas interests. Shell Petroleum confirmed its purchase of Tenneco's Colombian operations for $500m. Page 17

FIRST Boston, Wall Street securities firm going private in a merger with its European affiliate, Credit Suisse First Boston, reported stagnant third-quarter earnings of $41.7m. Page 18

OPEC'S pricing and long-term strategy committees will meet in Madrid on October 20, bringing together oil ministers from Algeria, Indonesia, Iran, Iraq, Kuwait, Nigeria, Saudi Arabia and Venezuela. Page 38

CARLO De Benedetti, Italian financier, agreed to pay L22.5bn ($16m) to buy a 10 per cent stake in Euromobiliare, Milan merchant bank. Page 21

CAISSE des Dépôts, French Government financial institution, has taken a 5 per cent stake in Canal Plus, pay television channel, in the latest reorganisation of French broadcasting. Page 18

TYSON Foods, leading US producer of poultry products, launched a bid for Holly Farms, third-largest US poultry producer, valuing Holly at around $900m. Page 18

NEW ZEALAND'S Government is taking a fresh look at British Airways' bid for a 25 per cent stake in state-owned Air New Zealand, amid reports that plans for a deal with Qantas, the Australian airline, are running into problems. Page 19

ASKO, fast-growing West German discount stores group, is launching a DM870m ($470m) rights issue to finance further expansion, its third call on shareholders in as many years. Page 20

BERGEN Bank, one of Norway's top three banks, announced its current estimate for identified losses on loans and guarantees for 1988 would reach NKr1.1bn ($161m), following more than doubled losses in the first eight months. Page 20

MORGAN Grenfell was appointed adviser to the Hong Kong Government to assist sale of Hang Lung Bank, in public ownership since it collapsed in 1983. Page 23

BRITISH claims that the passenger saloon being produced by Nissan at its new UK plant has at least 60 per cent European content are being disputed by Fiat, Italian carmaker. Page 8

Deutsche Bank to bail out Klöckner after futures loss

By David Goodhart in Bonn and Haig Simonian in Frankfurt

DEUTSCHE Bank, Germany's largest bank, last night launched a rescue operation for Klöckner and Company, the privately owned trading and engineering group, which stunned the West German business establishment by announcing a potential loss of DM600m to DM700m (£227m-$381m) in oil forward contracts.

In a brief statement, the bank said it had agreed with Klöckner "to secure the necessary financial basis to allow the business to carry on."

The rescue, one of the largest in West Germany, immediately triggered memories of that for AEG, the German electrical and electronics group which was on the verge of bankruptcy in 1982 before a group of banks stepped in.

Deutsche's move also unsettled a recently bullish West German stock market, and the bank's share price fell by DM10.70 to DM527.30 in Frankfurt yesterday. Klöckner is not listed on the stock exchange, but its participation certificates trade on the West German secondary market, and were suspended yesterday.

Klöckner, which is more than 90 per cent owned by the Peter Klöckner Stiftung, a charitable foundation, is now effectively in the hands of Deutsche Bank, which stressed yesterday it was not interested in a long-term holding.

Klöckner's potential loss surpasses the DM480m lost by Volkswagen last year in a currency fraud. It appears in this case that poor risk management rather than criminality was to blame, and although Klöckner spokesman did not rule out fraud a prepared statement read: "This situation has arisen out of a disregard for operational management rules and the circumvention of existing controls."

Mr Peter Henle, the managing board member with responsibility for oil trading activities and a brother of Mr Jörg Henle, the chief executive, has resigned. The Henle family, descendants of the founder Peter Klöckner, directly owns a little under 10 per cent of the company but also controls the Stiftung. No further management changes are expected in the immediate future.

Traders in the oil futures market said the company had become well known as a heavy trader over the past year, possibly as a front for other traders. There was speculation that it had become involved with a Swiss company and had inherited a series of long positions on which losses had been mounting as the oil price fell.

Klöckner reported a net profit of DM8m in 1987, down from DM25m in 1986, and turnover of DM9.6bn, of which DM2.6bn was in oil and gas. But it has shareholders' funds of only DM270m.

It has important stakes in the two quoted Klöckner companies: 40 per cent in Klöckner-Humboldt-Deutz, the diesel and farm machinery group, and 18 per cent of Klöckner-Werke, the steel, plastics and machinery company.

Klöckner and Company passed its dividend last year, for the first time in the group's history, because of the financial problems of the two other companies.

Klöckner-Werke reported a net loss of DM389m and Klöckner and Company provided about DM120m in a financial restructuring alongside Deutsche Bank.

There was some speculation that Deutsche Bank might press Klöckner and Company to sell one or both of its stakes but the bank, which also has considerable capital tied up in Klöckner-Werke, is more likely to want to shake up all three companies together without outside interference.

Caught out by the oil fall, Page 38

Dukakis: a big win needed

Debate is big chance for Dukakis recovery

By Stewart Fleming in Washington

GOVERNOR Michael Dukakis of Massachusetts, still trailing in the opinion polls, spent yesterday preparing for the final television debate with Vice-President George Bush, aware that he needs a decisive victory if he is quickly to seize the initiative from his Republican rival.

The debate takes place this evening in Los Angeles.

Advisers to the Governor concede that their private polls show he is still three or four percentage points behind Mr Bush.

They also concede that although a strong performance in the vice-presidential debate a week ago by Senator Lloyd Bentsen, Mr Dukakis's running mate, helped to narrow the gap, it did not close it.

In the view of one adviser, Mr Dukakis needs to score as big a debate victory over Mr Bush as Sen Bentsen did over Senator Dan Quayle, the Republican vice-presidential candidate.

After last week's vice-presidential debate Mr Quayle's poll ratings plummeted and even Bush aides thought his performance dreadful.

One was quoted as describing Mr Quayle as looking like "a wounded fawn" and another as saying the Bush campaign was still trying to "potty train" the Senator.

National opinion polls show Mr Bush ahead of Mr Dukakis – a Gallup poll yesterday had Mr Bush leading by 49-43 among registered voters but by 52-41 per cent among those likely to vote.

Increasingly, however, attention is focusing on state-by-state polls because this more accurately reflects the electoral college votes.

Each state has an electoral Continued on Page 16

EC budget cut likely as food prices rise

By David Buchan in Strasbourg

AFTER years of over-spending, the European Community is to cut back its 1989 budget by more than Ecu1bn ($1.1bn) because rising world food prices are cutting export subsidies and its booming economy has brought in more customs receipts.

Mr Henning Christophersen, the EC Budget Commissioner, told the European Parliament yesterday that savings amounted to at least Ecu2bn. He said that next month he would accordingly amend his earlier plan to set spending at Ecu45bn for commitments and Ecu 46.5bn for payments.

The Commission is likely to cut 1989 spending by less than Ecu1.5bn. This caution may provoke a row with the European Parliament and with member states, which will pay less into next year's budget.

Mr Peter Price, a UK Conservative member of the Parliament's Budget Committee, yesterday claimed that real savings might be nearer Ecu4bn, given the additional impact of farm budget spending stabilisers agreed last February.

The Commission, ironically, also announced new proposals yesterday to reduce the cost of beef and sheepmeat support.

The rise in world prices, particularly for cereals and oilseeds, will "conservatively" reduce 1989 spending on export subsidies, which are designed to close the gap between higher EC prices and generally lower world prices, Mr Christophersen said.

This gap has been further narrowed in terms of the Ecu, the European currency unit which represents a weighted basket of EC currencies, by the recent rise of the dollar against the Ecu. But, again showing caution, the Budget Commissioner said that this currency trend "is still considered too unstable to incorporate in a rectified budget."

He also said that the Community will have a surplus of Ecu1bn this year to carry over to next year, because Europe's buoyant economic growth has sucked in higher-than-anticipated imports, the duties on which are pledged to the EC budget.

Mr Frans Andriessen, the EC Farm Commissioner, yesterday announced plans for restrictions on Community intervention buying of beef, likely to save Ecu100m from next year, and harmonisation of sheepmeat premiums, expected to save Ecu300m from 1990. Part of the saving would come from scrapping the variable premium paid especially to UK sheep farmers.

Dutch tax move, Page 2

Bonn trade surplus jumps 10% in first eight months

By David Marsh in Bonn

WEST GERMANY looks set to chalk up another record foreign trade surplus this year after bumper exports in August helped boost the surplus to DM79.6bn ($45.4bn) in the first eight months of the year, 10 per cent up on the figure of DM72.1bn in the same period last year.

Figures yesterday from the Federal Statistics Office, showing how the favourable world investment climate is boosting West German exports, underlined the role which buoyant foreign trade is playing in the country's better than expected economic performance this year.

They also illustrate how the stability of the D-Mark on the foreign exchanges this year – where it has shown a real (inflation-adjusted) devaluation on a trade-weighted basis – has increased German exporters' competitiveness, particularly in Europe.

The sharply widening West German trade surplus against other EC countries this year is storing up gradual pressure for a realignment of currencies within the European Monetary System, even though both the Bonn and Paris Governments have lately been repeating their opposition to any parity changes.

West German officials say they now expect growth in gross national product of 3.5 per cent this year, the latest successive upwards revision from the Government's forecast of 1.5 to 2 per cent growth at the beginning of the year.

Yesterday's statistics, showing a trade surplus in August of DM9.3bn compared with DM8.5bn in August 1987, overstate the summer boom in foreign sales. The August figures – showing a sharp rise in exports to DM44.2bn, 28 per cent above the level 12 months ago – were inflated by inclusion of some foreign sales from earlier months which were excluded in previous figures as because of new statistical procedures.

None the less, the eight-month trend, with exports

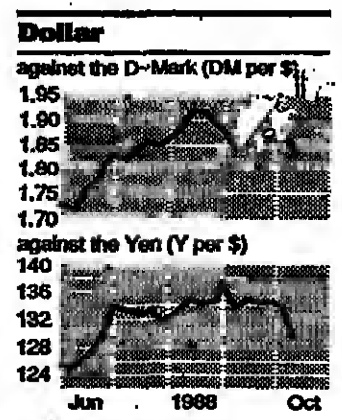
Dollar undermined by US trade fears

By Simon Holberton in London and Janet Bush in New York

THE DOLLAR continued to fall against leading world currencies, undermining prices for equities and bonds in London and New York yesterday, amid fears over today's US trade report.

Sentiment towards the US currency was not helped by Mr Satoshi Sumita, Governor of the Bank of Japan, the Japanese central bank, whose remarks about the dollar were taken by Japanese currency traders as a reason to sell.

Mr Sumita said that the dollar was weak because recent US employment figures indicated that the threat of inflation had subsided and the likelihood of further rises in US interest rates had diminished.



He also said today's US trade Continued on Page 16

Suntory and Allied-Lyons in share swap and marketing deal

By Tony Jackson in Tokyo and Christopher Parkes in London

THE RESTRUCTURING of the world drinks industry shifted to Japan yesterday with the formation of an alliance between Suntory, Japan's biggest liquor company, and Allied-Lyons of the UK.

The deal includes setting up a joint venture company to manage and market Allied's portfolio of spirits and fortified wines in Japan and an exchange of shares between the two groups.

Suntory is to pay Y20bn ($151m) for a 2.5 per cent stake in the British company, making it Allied's third biggest shareholder. In return Allied is to be allowed to buy a 1 per cent stake in Suntory for Y6bn.

The UK-based drinks, food and hotels multinational will become the first outside shareholder in the 89-year history of the private, family-owned Japanese group.

A new company, Suntory-Allied Lyons, owned 51 per cent by the Japanese group and 49 per cent by Allied, will import and market the UK group's brands and distribute them through Suntory's sales force.

Allied said yesterday that Suntory would pay Y10bn for the rights to handle its brands, bringing the total net inflow of cash to Allied resulting from the package to £108m ($180m).

The deal, to be operational by next April, will also involve Allied in selling Suntory products outside Japan, especially in North America.

The move prepares both companies for dramatic changes in the Japanese drinks industry which are expected to follow adjustments in excise duties on spirits due next April.

After years of protest from the European Commission and industry bodies, taxes on imported spirits are expected to be reduced and charges on cheaper Japanese products are due to be increased, allowing imports to compete more freely.

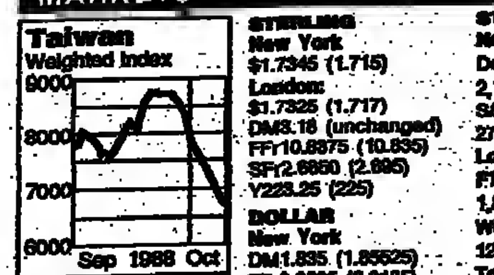
Suntory has handled some of the British group's brands in Japan since 1970, and has been particularly successful with Canadian Club whiskey, but Allied's full range is currently spread among 20 distributors.

Sir Derrick Holden-Brown, Allied chairman, said in London yesterday that the deal was in no sense a defence against Bond Corporation of Australia, which has recently increased its stake in the UK group to 11 per cent.

Allied-Lyons is the world's fourth largest liquor producer in volume terms, ranked behind Grand Metropolitan of the UK, Seagram of Canada, and Guinness, also British. Suntory ranks fifth by virtue of its dominant position in Japan.

Lex, Page 16; A drop of Teacher's at the Rising Sun, Page 17

MARKETS



INTEREST RATES
US
Federal Funds $8\frac{1}{16}$% ($8\frac{1}{4}$)
3-mth Treasury Bills: yield: 7.1% (7.51)
Long Bond: $102\frac{1}{32}$ ($102\frac{27}{32}$)
yield: 8.92% (8.86)
London
3-month interbank: close $11\frac{7}{8}$% ($11\frac{27}{32}$)

STERLING
New York
$1.7345 (1.715)
London:
$1.7325 (1.717)
DM3.18 (unchanged)
FFr10.8375 (10.835)
SFr2.6850 (2.695)
Y223.25 (225)

DOLLAR
New York
DM1.835 (1.85525)
FFr6.2525 (6.3185)
SFr1.549 (1.5755)
Y129.05 (131.075)
London:
DM1.8355 (1.852)
FFr6.2550 (6.31)
SFr1.5500 (1.57)
Y128.90 (131)

GOLD
New York latest
Comex Dec
$412.25 (408.4)

STOCK INDICES
New York
Dow Jones Ind. Av.
2,126.24 (-30.23)
S&P Comp
273.71 (-4.22)
London:
FT-SE 100
1,814.3 (-24)
World:
128.33 (Tues)
Tokyo
Nikkei Ave
27,409.37 (-60.23)
Frankfurt
Commerzbank
1,577.8 (-15.1)

OIL
Brent 15-day (Argus)
$12.4 (-0.02) (Nov)
West Tex Crude
$13.855 (+0.25) (Nov)

CONTENTS

West Bank's status foments political debate in Jordan

Jordanians do not make a habit of querying their monarch's decisions, but King Hussein's announcement that Jordan was severing links with the Israeli-occupied West Bank has fomented a vigorous local debate
Page 3

France prepares for opening of its market to foreign mutual funds

By George Graham in Paris

THE FRENCH Government yesterday put forward a bill aimed at bringing the country's mutual fund legislation into line with new European Community requirements. The bill will harmonise the law governing French unit trusts, known as Sicavs or Fonds Communs de Placement, according to their type, with the EC directive due to come into effect next October.

France has the largest mutual fund industry in Europe, with more than FFr1,000bn (£92bn) in funds under management. However, the funds are largely distributed by banks directly to their existing customers, and the market is expected to be overturned when the EC directive allows foreign funds to be sold freely in France.

At the same time, the Government plans to make it possible for banks to manage their balance sheets by transferring their credits into traded securities, in a new instrument known as "fonds communs de créances". The bill is expected to open the way for a market in mortgage-backed securities which could represent several billion francs within a year. A large market in mortgage-backed securities has already developed in the US, and the UK also launched the instrument.

Finance ministry officials said the details of the mutual fund bill, which is expected to pass through Parliament in the current session, have not been finalised, but the ancillary rules are expected eventually to end the requirement for French Sicavs to invest 30 per cent of their portfolios in bonds, even if their primary aim is equity investment. They are also expected to allow money market funds to invest directly in instruments such as certificates of deposit or commercial paper, rather than through roundabout techniques such as "remere" bond repurchase agreements.

Copenhagen changes mind on indirect taxes

By Hilary Barnes in Copenhagen

THE DANISH Government has set up a ministerial committee to consider how indirect tax levels can be brought more closely into line with those in other European Community countries, Mr Anders Fogh Rasmussen, the Minister for Taxation, said yesterday.

Up to now the Government has insisted that the completion of the EC internal market did not require harmonisation of indirect tax rates.

It also remains highly critical of the harmonisation proposals put forward by the European Commission, said Mr Rasmussen. But he added: "Denmark is not an island. We must adapt to the world around us."

If Denmark were to reduce its indirect tax levels to those proposed by the Commission, the Treasury would lose revenue of DKr40bn-DKr50bn (£3.3bn-£4.1bn), the minister said. This figure compares with total revenues from indirect taxes of DKr136bn last year and total public sector tax revenues of DKr359bn.

Danish indirect tax rates are substantially higher than those in West Germany which already creates a serious frontier trade problem.

Mr Rasmussen said the Government's strategy to reduce indirect tax levels would be based on a combination of lower public sector expenditure, the introduction of charges for public sector services, and strategic reductions in taxes on business, in the expectation that they will boost growth rates which will generate more tax revenue.

He also expressed the hope that indirect tax levels in some other European countries would be raised, which would ease the Danish problem. However, Denmark would maintain high rates of taxation on spirits, tobacco, and energy, and for environmental purposes.

EC-Israel accords approved

By David Buchan in Strasbourg

THE EUROPEAN Parliament yesterday approved by large majorities economic and financial agreements with Israel, thus ending 10 months of delay and avoiding a serious diplomatic rift between Brussels and Israel.

Passage of the agreements, first presented to the Parliament in January but then delayed and voted down in March and July, came after the European Commission negotiated a parallel understanding with the Israeli authorities.

This will allow Palestinian growers in the occupied West Bank and Gaza to export produce direct to the EC from this autumn, bypassing Israeli marketing organisations.

However, implementation of this "direct export" right for Palestinians will be watched closely by the Parliament, where anti-Israel feeling has run strongly this year because of the uprising in the occupied territories.

The accords will provide Israel with Ecu63m (£41m) in European investment bank loans and some tariff cuts. The latter will enable Israel to maintain the volume of its exports to the Community in the face of sharper price competition from rival producers in Spain and Portugal.

Aside from the new financial protocol, the new agreements were needed to adapt existing accords with Israel to the Community's incorporation in 1986 of Spain and Portugal.

The Parliament also approved a similar agreement with Syria last night, in order to adapt an older trade protocol with Damascus to entry of the Iberian countries into the EC. Unlike Israel, Syria receives no financial aid from the Community.

Gelli for Parliament

The former head of Italy's P2 masonic lodge, Mr Licio Gelli, who is facing trial over the collapse of the Ambrosiano Bank, may stand for election to the European Parliament, Reuter reports. He told the newspaper Il Giornale that three parties or political movements had asked him to stand. He did not specify which.

European companies stake a claim in workstation market

By Terry Dodsworth, Industrial Editor

SEVERAL OF Europe's leading computer and semiconductor manufacturers are joining forces on a research programme aimed at establishing a European presence in the fast-expanding workstation market.

The project, to be led by Olivetti of Italy, Europe's largest personal computer producer, is one of the most ambitious schemes being planned for the second stage of the European Commission's Esprit high-technology programme.

It is designed to give European companies a basis on which to tackle a part of the computer market which is growing at well over 50 per cent a year, but which is dominated by US companies.

Workstations began to carve out a niche for themselves at the beginning of the 1980s, in engineering design and scientific "research" departments. They were designed to give users many of the facilities associated with personal computers, but with much enhanced power and far more sophisticated display and graphics systems.

As personal computers have increased in power and flexibility, the two markets are beginning to converge. At the same time, they have assumed an increasingly important part in computer companies' thinking because of the growing penetration of desk-top processing. European computer groups see this trend as an opportunity to mount a counter-attack against the big US companies which dominate most of the data processing market.

Under the proposed Esprit programme, called Multiworks, the aim will be to develop a low-cost workstation in which the computer and screen will be integrated with the telephone system. Peripheral equipment such as facsimile machines will also be included.

One problem Europe has faced in trying to create an indigenous industry in this sector is the absence of a well-established European-owned manufacturer of microprocessors, the semiconductors which provide the basic processing power in desk-top computers.

The Multiworks team is planning to tackle this weakness by developing a microprocessor launched about a year ago by Acorn, the UK company now majority-owned by Olivetti. The Acorn processor used a technique called reduced instruction computing, which increases the processing speed of the chip by eliminating certain instructions.

Other European companies in the project include Bull of France, ICL in the UK, Philips of the Netherlands, AEG of West Germany, and SGS-Thomson, the Italian-French semiconductor company.

Freeing of interest rates worries Turkish industry

By Jim Bodgener in Ankara

PRIVATE INDUSTRY in Turkey yesterday expressed concern about the impact of the Government's decision that all deposit interest rates would be freed from tomorrow. Industry and business associations were most worried about the impact on commercial borrowing costs, already up to 120 per cent annually and more.

The announcement late on Tuesday by Mr Turgut Ozal, the Prime Minister, followed two days of intervention in the domestic and foreign currency markets by the central bank to stop a potential run on the lira in illicit but free foreign exchange dealing. The demand was fuelled by lira over-liquidity in the economy.

The outlines of a draft austerity budget for 1989 were also revealed officially yesterday, although they had been clear for some time. The total budget will be around TL32.5 trillion (million million), or about £11.2bn. Growth in gross national product has been targeted at 5 per cent, with a GNP deflator of 49 per cent. Tax returns are to rise by 62 per cent. Imports are estimated at $15bn, and exports at $12bn.

By late yesterday afternoon, foreign exchange dealing had slowed and rates had already fallen back significantly in response to Mr Ozal's announcement. The US dollar stood at TL1,915 compared with TL1,995 on Tuesday evening.

The general reaction of industry to the budget was that the outlook was bleak, if not hopeless. "With this budget, the rate of inflation cannot be less than 60 per cent, although the target is 45 per cent," said one business leader.

Istanbul-based international bankers were more sanguine about the outlook. Although the Government had signally failed to take the opportunity of curbing inflation gradually next year, said one, the outlook for the balance of payments was so promising that in the first three-quarters of the year the current account might be in surplus for the first time in many years.

Brussels seeks delay in Dutch pollution move

By Tim Dickson in Brussels

THE EUROPEAN Commission yesterday made a new move to try to break the political deadlock over EC plans to halve exhaust pollution from small cars over the next five years. It has asked the Dutch Government to suspend for three months a programme of fiscal incentives for car buyers planned for this autumn.

The Dutch proposal was a major factor in France's decision to withdraw its support for emission standards of 8 grammes per test cycle for a combination of nitrogen oxides and hydrocarbons which a "qualified" majority of member states had agreed to implement by 1992/93. The French argued that the special incentives for "clean" cars would endanger the unity of the single European market.

The Commission said yesterday that the Dutch plans come at a delicate time in the negotiations as well as potentially risking the fragmentation of the market.

Old-style communism lives on in Prague

By Leslie Colitt in Berlin

THE POLITICAL message sent out by the reshuffled Czechoslovak leadership this week is that old-time communism is alive and well in Prague.

Less than two weeks after Mr Mikhail Gorbachev's reformist coup in Moscow, the Czechoslovak leadership performed a game of musical chairs in which the main loser was a would-be reformer, Mr Lubomir Strougal, the Prime Minister.

The Czechoslovak leader, Mr Milos Jakes, packed his ruling praesidium (politburo) with five new members who, although younger, were not discernibly less conservative than the old guard they joined. Most notable was the meteoric rise into the praesidium of the 43-year-old Mr Miroslav Stepan, who only became party chief of Prague last April.

Any expectation that the victory of the reformers in Moscow would leave its mark on the "fraternal" party in Prague was wishful thinking. So thoroughly purged was the Czechoslovak party apparatus after its reformist leader, Mr Alexander Dubcek, was deposed in 1970, that even advocates of limited economic reforms were scarce on the ground.

Mr Strougal was counted among them. But he matched his desire for economic reforms with a political opportunism which made him a willing instrument of the hardline leadership.

Mr Gorbachev would have had to intervene personally in Prague and launch a search for suitable, reform-minded officials in the Czechoslovak party nomenklatura. But such a blatant intervention by Moscow in the affairs of another ruling party has been ruled out.

The Soviet leader is also wary of pressing his campaign for reforms on the Czechoslovak leadership for another reason. Forcing economic and political changes on the orthodox party in Prague could unleash unpredictable political forces in Czechoslovakia whose population has never forgotten the nation's pre-war democratic traditions.

The cautious Soviet leadership can have no desire to risk political and economic instability in its East European backyard, least of all at a time when it is engaged in an economic and political upheaval at home.

Thus the disastrous state of the centrally-planned economy notwithstanding, the Czechoslovak party still tinkers with the notion of economic reform first broached in 1982.

Prestavba (perestroika) or, as it is known by its full title, "the restructuring of the economic mechanism" is to be fully launched by 1991. While providing for a measure of company autonomy and fewer central plan directives to company managers, the leading role of the party in the economy is to be strengthened.

In his speech to the central committee this week, Mr Jakes cautioned against "overly hasty" economic reforms and departing from central control. Both he and the party's newly appointed ideological chief, Mr Jan Fojtik, paid tribute to many of the ideas embraced by the reformers in Moscow: democratisation and openness. But they also evoked the terminology so familiar to Czechoslovaks over the past 18 years.

Mr Jakes left no doubt that even the mildest form of political opposition would not be tolerated. Growing forces, supported or directly organised from abroad — especially by the Western media — aimed to "destabilise" Czechoslovak society, Mr Fojtik warned.

I G Metall calls for closer union links inside multinationals

By David Goodhart in Bonn

THE GIANT West German metalworkers' union, I G Metall, is trying to breathe new life into the idea of trans-national works councils in response to the greater mobility of capital expected in a barrier-free Europe.

The union believes that the long-standing informal links between union committees within multinational companies in Europe should be given a more formal status and that bargaining rights on non-wage issues should be sought for these international bodies. Unions at Airbus Industrie recently announced the formation of such a trans-national works council.

I G Metall is leading the 1992 debate among European trade unions partly because it fears that West German workers — with the highest pay and best fringe benefits in the EC — have the most to lose. Last week Mr Franz Steinkuehler, the head of I G Metall, echoing Mr Jacques Delors, the European Commission president, called for a "social charter" for Europe 1992.

Mr Steinkuehler wants guaranteed minimum standards in all fields not directly connected to wage bargaining. The union is not pressing to "Europeanise" the West German system of co-determination, which gives workers representation on company boards and rights to information. It is anxious, however, that even West German companies may be able to escape the co-determination system by transferring their headquarters to a near-by EC country.

"This social charter needs to be backed up by trans-national co-ordination between unions but this can be very difficult to organise," said Mr Joerg Barczynski, an I G Metall official.

The difficulties include the language barrier and the fragmentation of unions outside West Germany along political, religious and craft lines. I G Metall also accepts that because of the enormous differences in national bargaining systems, international bargaining over pay is not feasible.

"But why should the food in Spanish canteens be worse than in German ones, or the safety standards in Portuguese plants be worse than in Danish ones?" asked Mr Barczynski.

He also pointed to the growth of weekend-working in West Germany — spearheaded by multinationals like General Motors and IBM — as a result of pressure from highly flexible working-time agreements struck in southern Europe.

The number of people working on Sunday has increased by 650,000 since 1984 to total 2.2m, and agreements involving weekend working are now in place at Siemens, IBM, Volkswagen, Opel, BMW, Continental, Goodyear and others.

I G Metall is fighting a rearguard action against weekend working in West Germany and pressing its traditional case for shorter hours to create jobs. Yesterday it claimed that last year's reduction from 38.5 to 37.5 hours a week had created 60,000 jobs for metalworkers.

Mr Barczynski argues that it is not in the interests of relatively low wage-cost countries like Spain and Portugal to undermine conditions in West Germany and that co-ordination — in everything from strikes to capital investment demands — will prevent employers following divide and rule strategies.

One model for the support and guidance that the rich and experienced I G Metall can pass on to less developed unions is seen in the computer link between the Volkswagen works council in Wolfsburg and the Volkswagen plant at Port Elizabeth in South Africa.

The establishment of more formal trans-national works councils is unlikely to happen quickly, but Mr Werner Joos, an official of the Social Democratic Party who acts as a co-ordinator between the party and the unions, said: "I believe that in 10-15 years, European-wide works councils will be quite normal."

Moscow plans to bring in major tax reforms

By Quentin Peel in Moscow

THE Soviet Union is planning to introduce major tax reforms, alongside its politically explosive price reform, at the beginning of the 1990s.

First details were spelt out in an interview yesterday by Mr Viktor Semyonov, Deputy Minister of Finance.

The aim will be to overhaul a system which is overwhelmingly based on hefty indirect taxation, mostly levied on consumer goods, and which includes only very small income taxes.

Indirect taxes provide more than 59 per cent of all state revenues, whereas income taxes provide only 7.5 per cent, he said. He estimated that almost two-thirds of average incomes were consumed by indirect taxes.

Although most of the sales taxation is imposed on non-essential consumer products, substantial cuts could give the Soviet government a way of softening the blow of price rises in other areas - already seen as the most politically sensitive single issue in Mr Mikhail Gorbachev's economic reforms.

"We need to discuss the issue at length with the public, and then draw up a plan," Mr Semyonov said.

Mr Semyonov admitted, however, that raising income taxes and demanding tax returns from Soviet citizens could prove even more sensitive than rising prices. "Our people do not know how to count their money, and it seems they do not ever want to," he said.

Mr Semyonov said that the system of income tax included a whole range of extraordinary exemptions dating back to the earliest years of Soviet power. Thus such categories as hunters, gold prospectors, platinum miners and lottery ticket distributors are somehow exempt.

More politically sensitive are exemptions for such relatively privileged people as directors of state farms, chairmen of collective farms, all Heroes of the Soviet Union, and holders of other state awards.

"Tax law is inadequate, and there is not even a provision in the law for tax evaders," the Minister said.

He said that the process of tax inspecting was only just beginning. "I think that each individual should fill in a tax declaration form about his income as is the practice in developed countries," he said. "But at present, such declarations would be frowned upon even more than rising prices."

As for the taxation of state enterprises and newly-established co-operative ventures - the subject of heated debate earlier in the year when the Finance Ministry proposed taxes of up to 90 per cent on co-operatives - Mr Semyonov said he accepted the criticism.

Paris talks add warmth to Soviet relations

By Ian Davidson in Paris

THE Soviet Foreign Minister, Mr Eduard Shevardnadze, yesterday wound up three days of intensive talks in Paris which have marked a substantial warming of Franco-Soviet relations.

Apart from agreeing to exchange presidential visits, the two sides placed markers on their improved ties with a number of politically significant goodwill gestures, and a substantial agenda for further co-operation.

But his visit has also been marked in striking counterpoint by a restatement from President François Mitterrand of France's commitment to modernising its independent nuclear deterrent, and to solidarity with Nato.

It was agreed with Mr Shevardnadze that President Mitterrand will spend two days in the Soviet Union next month, meeting President Mikhail Gorbachev and visiting a space centre where a satellite carrying a French crew-member will be launched.

Previously, France had been wary of Mr Gorbachev's peace offensives. Now Paris has concluded that opportunities in arms control are much greater than the dangers, especially with the growing prospect of meaningful negotiation to remove the Warsaw Pact advantage in conventional forces.

President Mitterrand stressed France's commitment to Western defence in a speech to the Institut des Hautes Etudes de Defense Nationale.

In the event of an attack on West Germany, he said, "France would be present, from the very first minute, with all its forces, including its nuclear forces, providing it were within the framework of the Atlantic Alliance."

Warning to officials in Kosovo

By Judy Dempsey in Belgrade

YUGOSLAVIA'S Communist leaders, in an apparent attempt to lower political tension, have stopped short of backing Serbian calls for the resignation of top party officials in the troubled southern province of Kosovo.

The federal party leaders, who went to Kosovo for emergency talks with its leaders on Tuesday night, confined themselves to warning the provincial chiefs to "put their house in order" and deal with local ethnic problems.

The party leadership of Kosovo, a province which is largely inhabited by ethnic Albanians, has been subject to unremitting pressure by Mr Slobodan Milosevic, the powerful Serbian party chief.

Mr Milosevic has accused the Kosovo party of not doing enough to stem the migration of ethnic Serbs from the region, who, he says, are being intimidated and harassed.

During a central committee meeting of the Serbian party in Belgrade on Tuesday, speakers called on three Kosovo leaders to step down, including the local strongman, Mr Azem Vlasi.

The fact that federal party leaders did not endorse this call seems to indicate a setback for Mr Milosevic, who, unusually, did not attend the Kosovo meeting, even though, as Serbian leader, he is an ex-officio member of the federal politburo.

The federal leadership appears slowly to be adopting a more offensive stance towards Mr Milosevic. Last week's events in Vojvodina province, where a pro-Milosevic mob toppled the local leadership, clearly alarmed the leaders of other republics.

The Serbian leader faces an important test at a federal central committee meeting on Monday which is expected to bring major personnel changes. Yesterday's edition of the Belgrade daily Politika carried a prediction by Mr Stefan Korosec, a member of the federal politburo, that about a third of the current central committee and politburo would be purged.

Spanish viewers wait for dawning of a new television age

Peter Bruce reports that Madrid has yet to show its hand in plans to introduce private TV in the next two years

IF Mr Jose Barrionuevo thought life as a Spanish Cabinet Minister was going to be any quieter following his shift sideways to Transport and Communications from the Interior Ministry in last summer's government reshuffle, he is probably having second thoughts.

It has fallen to him to oversee the introduction of private television into Spain in the next two years and he has already had a sharp taste of how nasty a business television can be in Spain's fractured democracy.

For the past few weeks he has been at the centre of a row with the fiercely independent Catalan Government which has tried to launch a second regional channel in Catalan without bothering to get his permission, as the law requires. At one stage the Government-controlled RTVE, the country's main national public network, was showing a test card on the disputed channel to stop the new Catalan operation, Canal 33, from using it.

Much of the fury has now passed and an agreement is likely soon. But tomorrow the Minister is due to pass a decree outlining the technical framework under which new privately-owned commercial networks will operate and his troubles will really have begun.

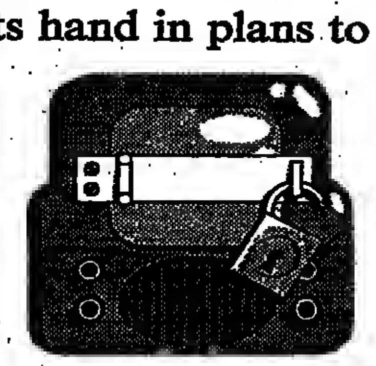
The Spanish are fanatical television watchers and recent research shows that some 70 per cent of Spaniards form their political opinions on the basis of what they see on television. Such statistics give rise to fears among opposition politicians that the Government will award the new channels to suit itself and virtually ensure that the introduction of private television will be attended by ferocious political battles.

At present, Prime Minister Felipe Gonzalez' central Socialist Government funds two national networks, RTVE I and 2, which function rather like BBC 1 and 2 in the UK and ARD and ZDF in West Germany. In addition, the autonomous governments in Catalonia, Galicia and the Basque Country each control a regional channel. Channel 33, in Catalonia, will be its second and is probably a defensive move by the conservative regional administration ahead of the coming liberalisation. Other autonomies, Madrid and Andalucia included, are also preparing to launch their own regional channels.

But under legislation powered through both houses of the Madrid Parliament in May, the Government is proposing to license three new private channels which will compete with the existing national and regional networks for a slice of Spain's television advertising cake, worth Ptas 130bn last year.

That, at least, is the theory. Although the first 10-year private TV concessions should be awarded within a year of tomorrow's technical decree, established contenders are thin on the ground.

The recent demise of the rebel Canal 10, which broadcast to, at the most, 20,000 Spanish viewers from a studio



DEREGULATION OF BROADCASTING

in London for a few months this year, appears to have thrown even more potential licencees, including Mr Robert Maxwell who had 10 per cent of the defunct channel, into the ring.

Telefonica, meanwhile, has already reserved two transponders on France's Eutelsat-1 F1 for Spain's new television age and the Government has asked for tenders from a number of satellite consortia for a satellite of its own. That, it is hoped, would be in place before the 1992 Olympic Games in Barcelona and the World Expo in Seville.

But Madrid intends to keep tight control over transmissions which will have to be made through Telefonica's modernised ground stations. Foreigners will only be able to hold 25 per cent of a private network and no shareholding higher than 25 per cent, even for locals, will be allowed.

The most coherent bid for a private television concession appears for the moment to be coming from Antena 3, a consortium led by the prestigious Barcelona newspaper La Vanguardia and which includes the conservative Madrid daily ABC. Granada of the UK was once considering joining Antena 3 but the plans appear to have fallen through. Mr Francis Bouygues, the French construction magnate who bought the leading French television channel TF-1 from the French Government last year, is also rumoured to be talking to the consortium leaders.

Mr Maxwell is also thought by analysts to be almost certain to seek a stake in a consortium bidding for one of the new private channels. He is extremely well connected in Spain and has already shown an interest in Spanish newspaper publishing but, says Mr Luis Angel de la Viuda, a leading Madrid media consultant, "I think Maxwell will wait to see how the market is going. But he will come."

With so many new regional and then private national networks preparing to enter the business, almost everyone, it seems, is playing cards close to their chests. Part of the problem is that even the existing public national networks and all the regionals fund themselves through advertising (they also all receive varying degrees of state or local aid) and the profitability of new commercial channels is difficult to forecast.

Mr Silvio Berlusconi, the Italian entrepreneur, appears to have already abandoned any hopes he might have had about entering private television and has been negotiating a series of contracts to supply established regional networks — Basque, Galician and, presumably next, Catalan television — with programmes.

Mr De la Viuda estimates that it will cost around Ptas 25bn to set up a new private channel in Spain and the risk has been amplified by threats by the political opposition in Spain to test the new broadcast laws in the constitutional courts. One mitigating factor in that calculation is that the wheels of Spanish justice grind very slowly and that the laws passed by the Socialist Government will stand unless they are rejected by the courts.

Inefficiency works both ways sometimes, though, and Mr Barrionuevo, conscious that in the last year RTVE audiences have fallen some 6.5 per cent — 1.8m viewers — at least has time to craft a credible new television age.

Previous articles in this series appeared on Page 3 on October 11 and on Page 4 yesterday.

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Tokyo stock market scandal turns to farce

By Stefan Wagstyl in Tokyo

The drama of a stock market scandal which has gripped Japan for the past three months turned to farce yesterday when a team of politicians investigating the affair went to hospital to interview their chief suspect.

Mr Hiromasa Ezoe, the businessman at the centre of the scandal, received his distinguished visitors in his pyjamas and a dressing gown and told them virtually nothing.

After an hour, the seven politicians trooped out of the hospital before the eyes of dozens of journalists and photographers and boarded a waiting coach to return to the Diet (parliament).

Mr Shin Kanemaru, the investigating team's leader and the Prime Minister's closest adviser, then revealed to a packed press conference how little they had learnt from Mr Ezoe.

Nevertheless, members of the ruling Liberal Democratic Party said they hoped the interview with Mr Ezoe would satisfy opposition leaders' demands for a full investigation of the affair. Members of the opposition said they were anything but satisfied. In particular they want Mr Ezoe to name other people involved in the affair.

The scandal erupted in June when newspapers disclosed that Recruit, an employment agency run by Mr Ezoe, had privately sold shares in Recruit Cosmos, a property subsidiary, to leading business and political figures. These people later made big profits when Recruit Cosmos was floated on the stock market.

Mr Ezoe resigned as Recruit's chairman and went into hospital in July with "psychosomatic" problems, including loss of appetite and insomnia. He refused to attend meetings of the parliamentary committee investigating the affair, pleading sickness.

However, many Japanese wonder how ill Mr Ezoe really is, including one member of yesterday's parliamentary delegation who came out from hospital saying that he could see no reason why Mr Ezoe had been unable to come to the Diet. Mr Kanemaru side-stepped the question of Mr Ezoe's health. Asked yesterday how Mr Ezoe had looked, he replied that he could not say, since he had never seen him before.

The affair has a very serious side, since the investigation has stymied Parliamentary debate about controversial tax reform proposals, on which Mr Noboru Takeshita, the Prime Minister, has staked his political future. But yesterday many Japanese were more interested in regaling each other with Mr Ezoe's testimony, especially his claim that shares were distributed to politicians not to influence them but because people in respectable positions in society would make good shareholders.

Referendums to decide Algerian political reform

By Victor Mallet in Algiers

PRESIDENT Chadli Bendjedid of Algeria, taking the initiative after widespread anti-government rioting, last night announced plans for political reforms that would give ordinary Algerians more say in the running of their one-party state.

In a communique, President Chadli said there would be two referendums in the months ahead. The first, on November 3, would decide on a new role for the prime minister. In the second referendum, on a date yet to be announced, the people would be able to give their verdict on a more wide-ranging package of reforms.

The President said he was aiming for a "democratisation" of politics. He has moved quickly in an attempt to neutralise hardliners in the ruling party, the Front de Liberation National, who oppose his policies of economic and political liberalisation and blame the riots on recent austerity measures.

Yesterday, the President lifted the state of emergency imposed on Algiers and its suburbs during a week of nationwide riots.

Between 200 and 500 people are thought to have been killed by the security forces, but yesterday life appeared to be nearly normal in the capital.

The army was mostly withdrawn from the town, although a few tanks remained in prominent positions in the city centre. Stores were crowded with shoppers, traffic jams reappeared, and the night-time curfew was lifted.

Mr Chadli's announcement is seen by Western diplomats as an attempt to bypass the old-timers in the party who are bitterly opposed to Algeria's version of perestroika, which has included the breaking up of giant state corporations into more manageable and accountable units.

Francis Ghilès adds: the scarcity of consumer goods, which helped to spark off the bloody riots in Algiers and some provincial cities, has suddenly endedin shops in Algiers and Oran, Algeria's second largest city.

Semolina, which forms the the basis of the national dish of couscous, rice, butter, cheese, lentils and coffee have become widely available in the last few days. Furthermore they can be bought at prices which are a fraction of the black market ones which fuelled considerable resentment throughout the summer months.

The reasons for this sudden abundance are not entirely clear, but the authorities have ordered state-run warehouses to move stocks as quickly as possible.

The army may also be playing a role behind the scenes. Indeed, however much many senior officers may be disliked, the vast majority of junior and middle ranking officers are very close to ordinary Algerians.

Paris embarrassed by the brutality of repression

By Paul Betts in Paris

MR ROLAND DUMAS, the French Foreign Minister, yesterday responded to mounting political embarrassment in France about the violent repression of the Algerian riots, saying that France and the international community "must show solidarity with Algeria".

However, his response was not expected to defuse the increasing controversy over the Government's attitude to the Algerian crisis.

Until yesterday, the Socialist government had remained silent on the deaths of demonstrators in Algeria, on the grounds that it was unwilling to interfere in the internal affairs of the country.

But with the revelation that the death toll may have risen to as high as 500 people, mostly young Algerians, widespread indignation has erupted in France with accusations that the political establishment has been applying dubious double standards over its human rights commitments.

Mr Dumas addressed the issue for the first time yesterday in the French National Assembly. He said it was too early to pass a definitive judgment on the recent events in Algeria but added it was important to try to find solutions to a dramatic situation. He expressed the hope that the proposed reforms announced this week by President Chadli Bendjedid of Algeria would provide the necessary relief to improve the situation.

However, Mr Dumas's remarks appeared to confirm the government's difficulty in adopting a clear-cut position on the Algerian crisis. This has now brought to the fore once again all the uncomfortable ghosts of France's colonial past and highlighted the country's guilt-ridden sentiments over its special relations with North Africa, and especially Algeria.

The issue is all the more embarrassing for the French left, because it is obviously extremely difficult, if not impossible, for members of the Socialist establishment – who campaigned for the independence of Algeria and France's other African colonies – to acknowledge that the post-independence Algerian regimes have hardly lived up to their expectations and have proved to be both repressive and inefficient in addressing the country's chronic problems.

French newspaper and radio editorials have criticised the political silence in France over the Algerian riots while North African immigrant communities have angrily demonstrated their indignation over the Government's attitude.

Mr Pierre Mehaignerie, the leader of the centrist CDS political movement, has been the only prominent French politician to condemn openly the brutality seen in Algeria during the past few days. Newspaper editorials have also claimed double standards by the French establishment, which has always been quick to express indignation against repression and human rights violations in countries such as South Africa, Chile, Turkey or in the eastern bloc, but has sought to argue that Algeria was a case apart.

The issue has been made all the more complicated because of the delicate economic relations between France and Algeria. France is currently renegotiating its long-term gas contracts with Algeria, with the Algerian authorities demanding that Paris continues to pay a special "political premium" for its gas imports. This "political premium" reflects not only the historical relationship between the two countries but also the fact that the bilateral trade balance between the two countries is heavily weighted in favour of France.

Arsonists hit church in S Africa

By Anthony Robinson in Johannesburg

ANTI-APARTHEID activists yesterday linked the fire-bombing of the Pretoria headquarters of the South African Catholic Bishops Conference to a series of unsolved attacks on government opponents which began in May last year with the blowing-up of the headquarters of the Cosatu trade union federation.

Six clerics, including two bishops and an elderly Irish nun, were rescued from a second floor balcony after an early morning explosion in the basement. Police said paint and petrol had been splashed on walls and corridors and ignited.

A bomb last month destroyed Khotso House, Johannesburg headquarters of the South African Council of Churches, which also housed several trade unions and the Black Sash civil rights movement.

The latest attack, and a similar bomb attack against the offices of a Namibian newspaper in Windhoek yesterday by a group calling themselves the "White Wolves" comes in the midst of a defiance campaign by the Catholic, Anglican, coloured Dutch Reformed, Methodist and other church leaders against the forthcoming municipal elections.

France 'to pull out from Chad'

FRANCE plans to withdraw 1,200 troops stationed in Chad following restored diplomatic ties between Chad and Libya, its North African neighbour, French radio said on Tuesday, Reuter reports from Paris. Radio France Inter, in an unsourced report, said the French army was preparing a gradual pullout of all its troops. A Defence Ministry spokesman declined to confirm the report.

Radio France Inter said Gen Maurice Schmidt, Chief of Staff of the French Armed Forces, would notify Chadian President Hissene Habre during an October 16-17 visit of France's intention to withdraw.

Indian executions ordered

An Indian judge ordered the execution of two men involved in the 1984 assassination of Prime Minister Indira Gandhi but set no date, the Press Trust of India said yesterday, Reuter writes from New Delhi.

Nigerian gas scheme

The International Finance Corporation, a World Bank subsidiary, will help finance a $900m effort to extract gas condensate from Nigeria's southern delta, AP writes from Lagos. Sir William Pyria, the corporation's executive vice-president, did not say how much the IFC planned to invest in the project.

UK Syrian visit

A group of British Labour and Conservative MPs which is visiting Syria next week will not be representing the Government, the Foreign Office in London said today, PA writes. Britain broke off diplomatic relations with Syria two years ago following claims at an Old Bailey trial of its involvement in a plot to blow up an Israeli airliner at Heathrow.

Singapore boost

Texas Instruments will invest about S$330m (£95m) in its Singapore plant over the next five years, a company spokesman said yesterday, AP-DJ writes from Singapore.

Sudan to stand by Sharia law

By Julian Ozanne in Nairobi

MR ABDULLAH el-Tourabi, Sudan's Attorney-General and leader of the National Islamic Front, said yesterday the Government was fully committed to the revival of Islamic Sharia law.

The Sharia penal code lays down punishments including stoning of adulterers and amputation of hands for theft, and has been extremely controversial in Sudan. Its introduction in 1983 by Col Jaafar Nimieri was one reason why the mainly Christian and animist south took up arms against the Moslem Government in Khartoum.

IMF considers three-year financing for Philippines

By Stephen Fidler, Euromarkets Correspondent

A TEAM from the International Monetary Fund is scheduled to visit Manila towards the end of this month to resume talks on a possible three-year financing for the Philippines. The Philippines is understood to be seeking about $900m under the facility, and negotiations are said so far to have been progressing satisfactorily.

Most financings from the Fund have a shorter duration – of a maximum 18 months – and it is quite rare for a three-year programme, known as an Extended Fund Facility, to be established for the largest debtors. Such facilities usually accompany comprehensive economic programmes and the Fund is expected to seek action, among other things, to increase exchange rate flexibility, reduce the fiscal deficit and continue liberalisation of imports and the privatisation of state-owned corporations.

It will also require other new financing, both from governments – Japanese officials were scheduled to be discussing in Manila this week a loan from the Japanese Overseas Economic Development Fund – and from commercial banks.

The country's main creditor banks are due to meet in New York next week to discuss the Philippines request for new funds from the banks. Tha Government has identified a $3.1bn financing gap for 1989-90, of which it wants banks to provide $1.9bn. Of this, some $300m would involve the rescheduling of principal repayments, and the rest would be new money.

Banks, however, dispute the Government's calculations, saying that it has ignored important sources of overseas financing, such as money from the US and the loans from Japan. But there is some sympathy in favour of the Philippine request for new funds, its first such request since 1985.

Unruffled atmosphere at bank named in drugs case

By Richard Donkin in London

A BLUE Rolls-Royce with a gold version of the silver lady was parked outside the Leadenhall Street regional office of the Bank of Credit and Commerce in the heart of the City of London yesterday morning. It gave some hint of the opulence to which many of the bank's customers have become accustomed.

The bank was among 80 defendants indicted by a Federal grand jury on Monday in connection with a $32m international operation to launder the cocaine sales profits made by Colombia's Medellin cartel.

There was little indication of any anxiety among investors, but the reassuring tones of bank officials on the upper floors indicated that some depositors wanted to know what was going on.

Business appeared perfectly normal and calm within the marbled interior where the affluence almost seeps from the walls. The impression came from the antique Chinese screen encrusted with jade carvings, and the glass chandelier in one of the committee rooms.

Mr John Hillbery, general manager of BCCI's International division said: "We have had a number of calls here in London but we have both a very loyal shareholder base and a loyal customer base."

He emphasised that the bank had not knowingly been involved in the laundering of profits from the drug traffic. He denied claims by US Customs that the alleged $32m (£17m) laundering plot involved "senior executives." The nine people named so far, he said, were all "young officers".

The bank was able to tell customers that a federal judge in Tampa, Florida, had lifted a restraining order preventing the bank from removing its funds and other assets from the US late on Tuesday when it deposited $14m into a court-supervised escrow account to cover possible fines.

As US Customs officers intensified their search for other individuals involved in the laundering network, Mr Nazir Chinoy, 55, general manager for France and French-speaking Africa, was remanded in custody yesterday until Friday by Bow Street magistrates. He has been indicted in the US on charges of taking part in the laundering operation. The US authorities are seeking his extradition.

Mr Chinoy, in London for a business meeting, had been staying at his flat in Water Gardens, Edgware Road, Bayswater.

Mr Hillbery stressed BCCI's third world connections established by Mr Agha Hasan Abedi, its president, the Indian-born, London-based businessman who cut his banking teeth in the Habib Bank in India, leaving to set up the United Bank of Pakistan in 1959. Mr Abedi left the UBP in 1972 because of the impending nationalisation of the Pakistan Banks.

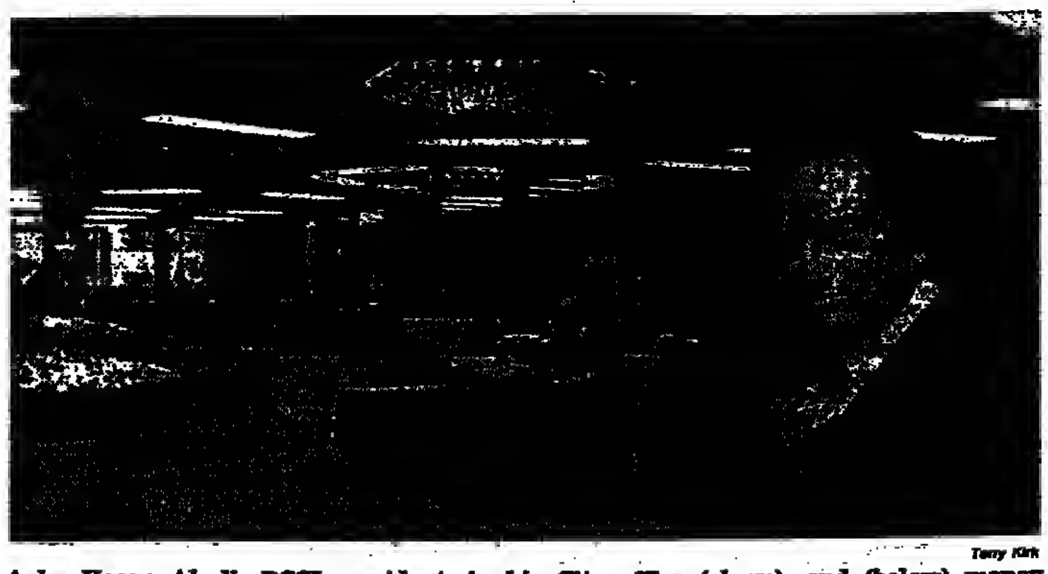
He set up BCCI in Luxembourg in the same year with capital of $2.5m. Bank of America took a 25 per cent stake and Arab shareholders subscribed the remainder.

Mr Abedi, recuperating at present from a heart transplant operation in March, has no stake himself.

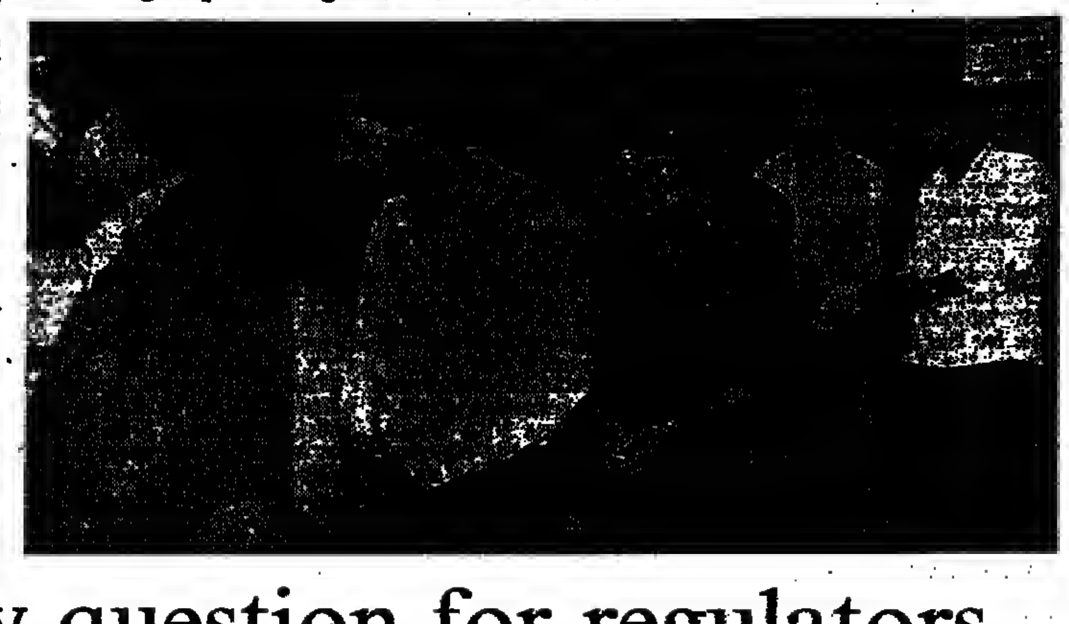
London played a leading role in the transfer of oil money into Britain during the 1970s. One branch in London was set up solely at the request of a large client whose business alone justified the expense.

"The overall reason for the bank's foundation was to facilitate Third World trade and provide jobs for third world people, to educate them in banking and to help them travel," said Mr Hillbery yesterday.

The bank, he said, had never been exposed to Third World debt. Mr Hillbery said BCCI's commitment to the Third World extended to making regular donations totalling $21m dollars in 1987 to charitable causes in countries such as Sudan and Bangladesh.



Terry Kirk



Agha Hasan Abedi, BCCI president, in his City office (above), and (below) money laundering suspects being escorted from a Florida court

BCCI named in cocaine profits laundering case

By David Buchan in Strasbourg and Tim Dickson in Brussels

LUXEMBOURG'S financial community reacted yesterday with alarm and despondency to the news that Bank of Credit and Commerce International is among defendants indicted by a US Federal Grand Jury for the alleged laundering of US$32m in profits from cocaine sales.

"I was very depressed when I heard about it," said one prominent banker echoing sentiments expressed by Mr Pierre Jaans of the Luxembourg Monetary Institute, the Grand Duchy's chief regulator. "It is the first time this sort of thing has happened here but it is the sort of premiere I am not at all happy about," said Mr Jaans.

Both men emphasised that the allegations were not yet proven, but they both know that even the whiff of scandal can be damaging in the highly competitive business of attracting funds to a low-tax financial centre.

In this regard Luxembourg has done outstandingly well over the last 20 years turning its enormous success as a base for the Eurobond market in the 1970s and early 1980s into a magnet for financial institutions wishing to develop private banking activities.

More foreign banks – 11 – have set up in Luxembourg this year than in any previous years, bringing the total to 138. This record influx is mainly due to new prospects for investment funds to operate Community-wide from a single base in Luxembourg, coming on top of Luxembourg's general banking advantages.

The Luxembourg banks boast total assets of around $220bn, compared with around $160bn five years ago, and make an important contribution to the local economy by providing more than 14,000 jobs.

Luxembourg's success as a banking centre can be attributed to a wide combination of factors, including its growing range of financial services, good communications, geographical location and position in the time zone, and political stability.

Above all, however, the legally enshrined tradition of bank secrecy, relatively light-handed regulation by the Luxembourg authorities and tax advantages are the chief reasons why foreign banks have gravitated towards the Grand Duchy in ever increasing numbers.

But these advantages, particularly banking secrecy, are now likely to be put to the test by the BCCI case. Bank confidentiality is underpinned in Luxembourg law by which the authorities cannot force a bank to disclose details of a depositor unless that proof can shown to a Luxembourg court that the depositor is suspected of a criminal offence. Tax evasion is a civil, not criminal offence in the duchy, and thus not sufficient to force disclosure.

This law is very similar to Switzerland's bank secrecy law. But some Luxembourg bankers have not been shy to promote their own services by pointing out that lower Swiss courts have recently been responding more readily to foreign, particularly US, requests for bank disclosure. Such requests have eventually been rebuffed by higher Swiss courts, but not before bank information has passed out of the country and damage done to the reputation of Swiss secrecy.

Luxembourg has not come under the same foreign pressure as Switzerland, claim officials at the Monetary Institute, because it has not hitherto attracted the volumes of "doubtful" money from areas like Latin America or the Philippines, which has traditionally found a home in Switzerland. This assertion must now come under fresh scrutiny in the light of the BCCI affair.

Luxembourg banks generally claim they scrutinise very carefully individual depositors, and the Institute claims in turn it supervises the banks closely, requiring monthly reports and occasional external audits to supplement checks by the Institute's own 20-strong bank supervision team.

Mr Jaans stressed that there has never been any question of Luxembourg shielding criminal activities, and says that where there have been suspicions in the past banks have always co-operated fully with the authorities.

Drug money poses thorny question for regulators

David Lascelles examines the problems of supervising banks with widespread international operations

THE problems which bave struck Bank of Credit and Commerce International with its indictment for alleged laundering of drug money highlight the complexities of supervising the activities of banks with widespread international operations.

BCCI was founded by Pakistanis and financed by Saudi Arabians. It belongs to a Luxembourg-registered bolding company but most of its business is in the UK and elsewhere. Unlike most banks it has no obvious home, nor any clear regulatory centre.

Mr Robin Monro-Davies of IBCA, the London firm which rates banks, said yesterday: "It is the world's largest bank without a lender of last resort."

A lender of last resort, usually a central bank, stands ready to supply liquidity to banks when they cannot obtain it in the markets.

Altbongh there was no immediate evidence that the bad news had affected confidence in the bank, (the bank's London office was claiming yesterday all was normal) the likelihood of further bad publicity as the case unfolds contains the danger that the bank's standing in the financial markets will be eroded. Banking authorities in several countries will be observing it closely for any sign of a flight of deposits, though BCCI has maintained a liquid balance sheet and is well placed to meet any surge in withdrawals.

At the end of last year it had $17bn in deposits, bnt only $9bn of loans, which meant that it had a large proportion of its assets in readily realisable money market instruments. Its total assets were $20bn, with capital of $1.5bn.

BCCI's principal supervisor is the Luxembourg Monetary Institute, the central bank of the principality. However its responsibility is limited to ensuring that the bank operates within Luxembourg banking law and presents proper accounts. Luxembourg would not, it is assumed in banking circles, feel bound to bail BBCI if it ran into serious trouble. Since most of its operations are in other countries, it would pose little threat to the Luxembourg banking system.

Some years ago, the Monetary Institute obtained assurances from BCCI's shareholders that they would help it out if it got into trouble. Snch "letters of comfort" are fairly routine for banks with a foreign ownership base, and a $150m call was successfully made on BCCI's owners two years ago to help make good a $200m loss on options dealings.

These shareholders include the Bin Mahfouz family of Sandi Arabia, owners of the National Commercial Bank, Saudi Arabia's largest.

Regulatory responsibility for BCCI is to some extent shared with other supervisors through the so-called Basle Concordat, a 15-year-old agreement among banking authorities which is designed to ensure that international banks do not slip through the supervisory net.

This places BCCI's branches in the UK, for example, within the aegis of the Bank of England.

However the Basle Concordat specifically excludes supervisors from any obligation to bail out a troubled bank. That is left for each central bank to decide for itself, and though troubled banks do, on the whole, get rescned, it is usually only at considerable financial and political cost.

The allegations of drug money laundering in BCCI's case point to a further fact about international banking supervision: it is not designed to prevent breaches of the law so much as to ensure that banks are soundly managed. International banking officials are believed to be working on a code of banking conduct which will condemn bank connivance in practices such as tax evasion and drug trafficking.

Bush turns racism to his own advantage

Stewart Fleming reports on the importance of the black vote in the state of Illinois

RACE is an issue which neither presidential candidate addresses directly. But in cities across the Midwest and the north east, where the decisive confrontations of this year's presidential election campaign are now taking place, it is on everybody's mind.

"It's like the elephant in the room, it's there but nobody talks about it," says Mr William Schneider, a political analyst at the American Enterprise Institute, a Washington think tank. So far it is an issue which Repnblican candidate Mr George Bush is turning to his advantage.

Nowhere is this more true than in Illinois where, legend has it, a few thousand stuffed ballots in Cook County enabled Chicago's then-Mayor to swing the state's 27 electoral votes behind Senator John F. Kennedy and ensure in 1960 that he, not Republican Vice-President Richard Nixon, was victorious.

The days when the Mayor's patronage machine could hold together a multi-racial, multi-ethnic coalition by dispensing jobs and favours to precinct workers and their constituents are long since passed.

Since 1983 when the black vote elected Mr Harold Washington, Chicago's first black mayor, who promptly announced "Now it's our turn," the city's politics have polarised along racial lines.

US CAMPAIGN '88

"Racial politics destroyed the Chicago machine," said Mr Schneider in an article earlier this year in Atlantic Monthly. "Machines work best in an issue-lese environment. Machine politicians are concerned wlth material resources, such as jobs, contracts and benefits. Once divisions over issnes emerge, gronps begin to see one another as opponents rather than competitors."

"Race," says Mr Robert Macari, the top Chicago aide to Congressman Marty Russo, "plays a part in every political decision here."

Neither presidential candidate is making an overtly racial appeal to the voters of Illinois or, more specifically, the ethnic white working class voters around the city of Chicago itself who will determine whether Illinois votes Republican or Democrat in the presidential election.

But both candidates are taking the city's racial polarisation into account.

The arithmetic of a statewide election in Illinois helps to explain the key role which white working class voters will play on November 8.

According to Mr Paul Green, director of the Institute of Public Policy at Governor's State University in Chicago, the city and its immediate suburbs will cast about one quarter of the votes in the election, with the rest divided roughly equally between the outer Chicago suburbs and the downstate areas.

The outer suburbs will vote overwhelmingly Republican. Just to be competitive, therefore, a Democratic presidential candidate needs to do well in the Chicago area. Governor George Dukakis needs not only to generate a strong turnout among the city's black population of around three quarters of a million potential voters, bnt also to capture a good chunk of the working clase white vote.

These voters tend to go solidly Democratic in congressional and local races but not in presidential elections. Not since President Lyndon Johnson's electoral landslide in 1964 has Illinois voted Democratic in a presidential election.

In 1984, when President Ronald Reagan won Illinois with 56 per cent of the vote statewide, predominantly blue collar constituencies such as Congressman Russo's third district on Chicago'e South side voted 65-35 per cent for Mr Reagan. This is one measure of the challenge Mr Dukakis faces.

Another is the style of campaign Mr Bush is conducting. He is focusing not so much on concrete issues as on values and symbols. "Bush is raising social issue themee and exploiting the biggest split in the Democratic party, which is race," says Mr Schneider. "He is waving the bloody flag," says Mr Green more provocatively.

Now that the focus of the campaign has shifted to the industrial Midwest and north east Mr Bush, has continued to define his rival as a "liberal" not only by suggesting that he will raise taxes and spend them on social programmes but also by arguing that he is soft on crime. In speeches and in TV adverts he draws attention to the Massachusetts prison-leave programme and the release of a black murderer in 1987, who raped and terrorised a young Maryland couple while out of prison on a weekend pass.

Mr Schneider argues that it would be unfair to describe Mr Busb's appeal as racist, not least because the crime problem is real. But he adds: "Bush is saying he is not for tha blacks."

This is a luxury Mr Dukakis cannot afford. He needs to capture both white and black votes to win in Illinois. Indeed, most observers believe that in the effort to do so, he risks distancing himself from black voters.

Mr Dukakis faces a special problem in achieving this objective in Chicago, namely Rev Jesse Jackson, his former rival for the Democratic presidential nomination.

The resentment many white Chicago voters feel towards the blacks who have taken over many of their neighbourhoods and, since 1983, control of the Mayor's office, is focused on Rev Jackson, a controversial figure in the city's politics for years.

Mr Dukakis, a black city official points out, has made only one campaign stop before the black community. That, he says, only came after local black leaders had pressured him. The most Gov Dukakis can expect from Chicago's blacks is "indifference", he says.

Others, however, maintain that black elected officials will work to turn out the vote because of their commitment to the Democratic Party.

The Dukakis campaign in Chicago itself is saying that it may have an ace in the hole – Mr Bush's failure to solidify his base in traditionally Republican rural southern Illinois where local polls show that the party is not as strong as might be expected.

Dilemma for Reagan over prosecution of Marcos

By Lionel Barber in Washington

PRESIDENT Ronald Reagan faces a tricky decision on whether to approve the indictment of Ferdinand Marcos, the former president of the Philippines, before the November election.

Mr Marcos faces charges that he fraudulently purchased with Philippine government money valuable New York real estate and art objects before he fled, under US pressure, into exile.

The US Justice Department wants to proceed quickly with the indictment, but senior State Department officials want to offer Mr Marcos a chance to plead guilty in exchange for a lighter sentence.

The State Department is concerned that prosecuting Mr Marcos could damage future attempts by the US to influence heads of state to leave power.

A second consideration, according to a leaked State Department cable, is that Mr Marcos might embarrass Philippine or US government officials.

A federal grand jury in Manhattan has been investigating allegations that Mr Marcos and his wife, Imelda, acquired several hundred million dollars worth of Manhattan real estate with Philippine government funds. It is also examining whether after arriving in the US, Mr Marcos violated a federal court order against transferring the properties.

Pinochet to hold elections in December next year

By Barbara Durr in Santiago

CHILE'S military ruler, General Augusto Pinochet, intends to hold direct presidential and parliamentary elections in December next year, according to his supporters.

The timetable, announced yesterday by a group of constitutional lawyers who act as consultants to the regime, signals a stiffening of Gen Pinochet's determination to stick to the calendar laid down by the 1980 constitution.

The opposition, which last week defeated Gen Pinochet in a plebiscite on granting him a further eight years in power, is pressing to accelerate this timetable.

The possibility of Gen Pinochet being a candidate in the presidential election has prompted criticism from the two most important political parties that supported him during the plebiscite.

The most important conservative party, National Renovation, opposes a Pinochet candidacy. Its secretary-general, Mr Andres Allamand, said that changes to the constitution that would be required to legalise a Pinochet candidacy were unacceptable and that in any case, the general had "no possibility of political success".

The Independent Democratic Union (UDI) also announced that it considered that the constitution "very clearly" prohibited a Pinochet candidacy. It urged the general to participate in the designation of another candidate. The UDI has been one of the most faithful pro-Pinochet parties.

It is clear that conservative parties are attempting to adjust to Chile's new political situation and position themselves for a post-military era.

According to the electoral calendar given by the lawyers, presidential and congressional candidacies are to be announced by next July 11 and the director of the Electoral Service had until July 21 to accept or reject the nominations. Power is to be handed over to the newly-elected president on March 11, 1990.

Gen Fernando Matthei, commander of the air force and a member of the four-man ruling junta, said the military government would continue until March 1990. He none the less left the door open for conversations with political parties about unspecified constitutional reforms in an apparently direct contradiction of Gen Pinochet.

Unlike the recent statements from Pinochet loyalists, such as Interior Minister Mr Sergio Fernandez, which tried to portray Gen Pinochet's defeat as a victory, Gen Matthei openly acknowledged that the military government had lost.

New Boeing 747 series faces production delay

By Michael Donne, Aerospace Correspondent

DELIVERIES of the latest version of the Boeing 747 Jumbo jet, the Series 400, are being delayed by up to a month because of unexpected production problems.

Boeing Commercial Airplanes of the US said in Seattle that the problems arose from an unexpectedly high number of changes in the configurations of the aircraft asked for by different airline customers.

Another factor was the need to complete full certification of the aircraft with three separate types of engine, from Rolls-Royce, Pratt & Whitney and General Electric, involving a high volume of test flying over the past four months.

In addition, the production rate was increased from two to five aircraft a month, creating difficulties on the final assembly line at Seattle.

The first deliveries of two aircraft to US airlines will be made on time in December, but thereafter deliveries of the next 20 aircraft through the first half of next year will be delayed by up to one month.

Boeing hopes it will have caught up by next summer, with production running at the higher level.

Current Series 400 orders stand at 161 aircraft, out of the total of 877 Jumbo jets of all versions ordered to date, of which 705 have been delivered.

Brazil launches green initiative

BY Ivo Dawnay in Brasilia

BRAZIL yesterday launched e new package of environmental measures aimed at countering growing world criticism of its conservation record, particularly in the tropical forests of the Amazon Basin.

The package includes the merging of the national environmental agency (Sema) and the Brazilian Forest Development Institute (IBDF) and co-ordinating the environment-related activities of six ministries. The measures also involve an end to much criticised federal incentives for the development of cattle ranching in the Amazon region.

In addition, an educational programme, called Our Nature, is to attempt to raise national awareness of the value and delicacy of the country's ecology. "This is not just a government problem, we have to create a national consciousness of the environment," President José Sarney told foreign journalists yesterday. While certain to be welcomed, the initiative is also likely to be greeted with scepticism by the green lobby at home and abroad.

It comes soon after Brazil was pilloried at the recent meeting in Berlin of the World Bank and International Monetary Fund for its record on the environment and the damaging effects of development on native Indian tribes. Pressure is mounting on international development agencies to tighten rules linking aid to these issues. Moreover, only this week 13 Brazilian embassies abroad have faced small but vociferous protests over forest destruction and the treatment of Indians.

In particular, Brazil's critics are expressing growing concern at the rate of forest destruction and the meteorological impact of deliberate burning for land clearance on the atmosphere. Official figures on forest destruction compiled by the National Space Research Institute (INPE) claim that some 200,000 sq km – 40 per cent virgin forest – were burnt last year alone. The Government says that less than 10 per cent of the total Amazon region has been deforested, a claim contested by environmentalists.

Senate backs Iraq sanctions

By Lionel Barber

THE US Senate has revived efforts to impose sanctions against Iraq for allegedly using poison gas against Kurdish rebels, but the Reagan Administration is threatening a veto.

Senators passed legislation barring export of weapons and sensitive technology to Iraq and requiring the US to oppose loans to Iraq by international financial institutions such as the World Bank. But it excludes sanctions which senators said would harm American farmers.

Peruvian general 'retires' amid coup rumours

By Veronica Baruffati in Lima

A PERUVIAN general, Victor Raul Silva Tuesta, has gone into retirement following rumours of a coup.

It is still unclear whether General Silva Tuesta, commander of the first military region, was the brain behind the coup or whether he had discovered the coup plans. Officials claim that General Silva Tuesta asked to retire, but many sources in Lima believe he was forced to go.

Peru is facing severe economic upheaval in the wake of a severe austerity package introduced last month. Following the coup rumours, President Alan Garcia made his first public appearance in 52 days in front of the Government palace to hand over heavy machinery to provincial municipalities for road-building. He broke his month-long silence to make a few insignificant announcements, said "thank you" and returned to the palace refusing to answer questions from the press.

Mr Garcia's Apra government is facing its third general strike today by the General Confederation of Peruvian Workers, the largest confederation of Peruvian trade unions. The strike has the support of the opposition United Left party.

Pollution protest shuts Taiwan chemical plants

By Bob King in Taipei

ANGRY demonstrators have shut down 17 leading petrochemical plants in Taiwan's southland because of alleged environmental pollution – including the nation's third and fourth naphtha crackers, which provide two-thirds of Taiwan'e ethylene, a key industrial raw material.

The industrial disruption may well cause increased problems for Taiwan's beleaguered stock market, whose index on Wednesday declined drastically for the 11th etraight day, because several of the affected companies are listed on the exchange.

The closures, forced by residents of the southern town of Lin Yuan after they failed to reach agreement on compensation with the companies, caused an emergency meeting yesterday afternoon of the Industrial Development Bureau which was attempting to find ways to bring the confrontation to a speedy conclusion.

The protesters allege that the plants have seriously polluted fishponds and offshore fishing grounds with their waste water, and were demanding that the companies pay T$2bn (£40.7m) in compensation.

The talks collapsed when the companies were unable to come up with that sum and residents prevented them from normal operations.

One official estimated that the closures will cost the companies several hundred million Taiwan dollars a day. The companies, most of which manufacture npstream petrochemical products, include two government-owned naphtha crackers, which provide about two-thirds of Taiwan's ethylene output, the key ingredient in PVC which is a major component of many manufactured goods exported by Taiwan.

Local press reports put the number of complainants at 20,000. The reports say that the residents rejected a counter-offer of more than T$700m from the companies and blockaded the plants' entrances.

The Taipei weighted index closed at 6,732 points yesterday on volume of only T$540m – a far cry from its high of almost 8,800 points reached on September 24, the day that the Government announced the imposition of a capital gains tax and inadvertently triggered a panic on the exchange. The mood yesterday was one of gloom and doom as the panic showed no signs of abating.

Legislators choose oath to the Hong Kong people

By John Elliott in Hong Kong

TWELVE soberly dressed members of the Legislative Council of Hong Kong yesterday formally replaced their existing pledges of loyalty to the Queen of Great Britain with a declaration of loyalty to the people of Hong Kong. This was uo unilateralist bid for independence by one of the Queen's last colonies, but a demonstration of reality here as Hong Kong moves towards 1997 when China will resume its sovereignty.

"We have done this because during this period of transition there are bound to be conflicts of interest between the UK Government and the Hong Kong people and we therefore feel we should show our allegiance to the people of Hong Kong," said Mr Martin Lee – the colony's most outspoken proponent of more democracy.

Sir David Wilson, governor of Hong Kong, stressed the need for continued economic growth in his opening speech to the new council session. He said about 45,000 people are emigrating this year from Hong Kong. This is about 50 per cent up on last year. About a quarter of them are in professional, administrative and managerial positions.

Provinces spurn Peking attempts to rein in economy

By Colina MacDougall

CHINA'S leaders are having a tough time trying to impose a freeze on capital construction and bureaucratic wheeler-dealing. In the wake of soaring inflation, rampant corruption and a huge excess of building projects, the party Central Committee and State Council decided at a crisis meeting in September to clamp down with a series of controls such as checks on prices and capital investment.

But provincial officials, given their head under China's economic reform programme, may have already bolted too far for Peking to pull them up. In the words of the old saying, "Heaven is high and the Emperor is far away".

Earlier this year Peking was totally unable to enforce its planned restrictions on the economy. The banks' allocation of credit for the whole year was completely used up in the first two months, but they carried on issuing loans regardless. Industrial output and new construction in the first half of this year far exceeded planned targets.

Tough provincial bureaucrats may now feel sufficiently on top to nod obediently when Peking barks but then continue much as before.

The end-September edition of Liaowang, the well-informed Hong Kong communist magazine, pointed up this provincial sense of power and independence and reported jealous battles between provinces over natural resources and products. Shortages of cotton and silk – now bad enough to cause Chinese trade corporations to renege on deals with foreigners – have sparked small wars between the provinces.

"Governments in some localities even send armed police and militiamen to guard the borders and prevent their silkworm cocoons being transported to other localities", said Liaowang. Units from Guangdong province simply bought off the Sichuan silk dealers with huge commissions and crashed through the provincial check points with their forbidden loads in army trucks.

Because of this free-for-all over commodities, provincial authorities are heavily investing in their own production, which adds to the sense of economic independence. Because the wool-producing province of Gansu has put up some 30 woollen textile plants of its own, it can no longer supply the Guangdong mills. Consequently, Guangdong now plans to spend tens of billions of yuan over the next decade building its own chemical and synthetic fibre plants.

Many provinces and municipalities now run their own companies in Hong Kong, or even elsewhere abroad. Some are allowed to make joint venture deals with foreigners up to $30m in value without reference to Peking. All this enhances their own sense of power.

Local officials, Liaowang found, had "standardised and legalised" their separatist behaviour. They claimed power throughout their jurisdictions over the economy and simply told the local Peking representatives to keep quiet and do what they were told.

Premier Li Peng and his colleagues in Peking will have a hard time trying to impose control, if only because the growing sense of independence is a natural result of the reform. So far, since the September Central Committee meeting, the ruling State Council has issued circulars on tax and price inspection, which are aimed at speculation and embezzlement, and on checking all investment projects to try to cut out the excess. But there is no reason to think that these measures will be effective.

"Orders must be obeyed and prohibitions observed," Premier Li Peng said in a National Day party speech at the end of September. "No department, locality or unit may pursue its own narrow interests at the expense of the overall interests of the people." Fine words, but China these days is more into making a quick buck than self-sacrifice.

This is nowhere more evident than in the companies run on the side by bureaucrats, an important target of the leadership's current controls because of their huge speculative activities. Peking forbade these several years ago because of the corruption involved, but they continue to flourish.

Polisario weighs up war and compromise with Hassan

Supporters of a deal with Morocco contend with the temptation to use force, reports **Francis Ghilès**

ON FRIDAY September 15, one of the fiercest North African battles in years took place around the Oum Draiga section of the 1,000 mile wall which surrounds the Moroccan held section of the Western Sahara.

The Polisario, which has been fighting for 13 years for the independence of this former Spanish colony, threw 2,500 guerrillas, two motorised light infantry battalions and one mechanised infantry battalion against the Moroccan defences. More than 250 Moroccan soldiers and Polisario guerrillas were killed or wounded and The Forces Armées Royales lost Colonel Abdesalam El Abidi, one of King Hassan's most experienced field commanders.

That such a battle should occur less than three weeks after a United Nations peace plan was accepted conditionally by the two parties to the conflict, suggested to many observers that negotiations were going badly and might even be on the verge of breaking down.

Such a pessimistic reading was reinforced by the fierce exchange between Algeria and Morocco which had taken place, earlier in September, in Nicosia, at a meeting of non-aligned foreign ministers. There was a feeling among certain diplomatic observers that King Hassan of Morocco was not prepared to grant the kind of autonomy needed to draw Polisario into giving up its campaign for an independent Western Sahara.

Others however are less pessimistic. They argue that as the two parties get down to the nitty gritty of negotiation, there are bound to be clashes.

Polisario's temptatiou to use force in the hope of winning further concessions from King Hassan must be strong. In particular, the guerrillas would like to get the monarch to agree to direct and publicly acknowledged talks.

Despite private meetings between both sides, the last of which took place in July, in the Saudi summer resort of Taef under the aegis of Mr Ali Ben Moussalem, the Saudi monarch's adviser on North African affairs, King Hassan has remained adamant his advisers will no negotiate directly with people the Moroccans have always branded as "mercenaries."

The temptation to use force could also be encouraged by some in the Algerian military high command, although last week's bloody riots in Algeria will have weakened that country's diplomatic hand. Algeria has been Polisario's most stalwart ally since 1975 but no one doubts the sincerity of President Chadli Bendjedid in wishing to find an honourable solution to the conflict. Algeria would not have renewed diplomatic links with Morocco last May had its leadership not reached a consensus on this point.

King Hassan: adamant over not negotiating with Polisario

This battle may also be the result of the divisions within the Polisario leadership about whether an accommodation with the kingdom is desirable. In recent weeks, there have been two reshuffles of ministerial portfolios in the Government of the République Arabe Saharaouie Democratique (RASD), which is recognised by 71, mostly third world, countries.

The position of people such as Mr Bachir Mustapha Sayed, Polisario's foreign affairs specialist and key negotiator with the UN and Mr Mohamed Sidati, the new minister of foreign affairs has been reinforced. They argue that Polisario has fought long and hard to gain recognition for the notion of Saharawi, but accept that the likelihood of creating a new state is remote. Therefore an honourable compromise with Morocco is worth seeking.

However Mr Brahim Ghali, the man who for 13 years has been in charge of military operations, remains – a clear indication that Polisario is not giving np the possibility of using military pressure

The ascendancy of those who hope to find a compromise is uonetheless demonstrated by Polisario's acceptance that the Spanish census of 1974 should be accepted as the proper basis from which to prepare a referendum.

This meant Polisario discarding the argument about the tens of thousands of Saharawis who had takeu refuge in Morocco to avoid Spanish repression in the 1950s and 1960s. For that matter it would be impossible to register those Saharawis who for decades have lived in Algeria, Mauretania, Mali and Niger, let alone enable them to vote.

Considerations of regional equilibrium also matter. Were the RASD to become independent, its first act would no doubt be to forge a federation with Mauritania, where the balance between the dominant northern Moors and the black population in the south, many of whom were, until recently, virtual slaves, is very fragile. Neighbouring Sénégal is sympathetic to its black brethren across the border and is thus indirectly involved. Such arguments all militate in favour of a Polisario compromise with Morocco.

Another issue concerns King Hassan's willingness to grant a measure of autonomy to the "Saharan provinces" if and when the tens of thousands of Saharawis refugees now living in camps south of Tindouf return in the event of a referendum which favours Morocco. The King has declared that what counts for him is "the flag and the postage stamp".

He has also indicated a wish to leave his successor a country of *länders* built on the German model. Such words hold promise, but questions remain. What guarantees is the monarch able to offer Polisario, or the UN, that he will hold to his word?

The next few weeks will provide some answers. The UN Secretary General, Mr Javier Peres de Cuellar, is shortly due to appoint a special adviser to oversee the organisation of a referendum.

Only when a date for a ceasefire is announced will those who have followed this intractable conflict have have a measure of real confidence in the peaceful settlement of a crisis which has pitted the Maghreb's two most powerful nations, Algeria and Morocco against each other for over one decade.

WORLD TRADE NEWS

Comecon eyes detailed negotiations with EC

By Quentin Peel in Moscow

COMECON, the Soviet-led state trading bloc, has egreed on eight major areas of co-operation it wants to negotiate with the European Community, ranging from the environment to technical standards.

However the 10-nation group appears to be in increasing disarray over how to push forward the process of its own internal integration, with countries like Romania and East Germany resisting attempts to promote closer economic relations.

A meeting of Comecon's executive committee, involving the deputy prime ministers of the member states, agreed on the negotiating mandate with the EC in Moscow this week, but on little else.

The East and West European blocs have recognised each other only since last June, after the Soviet Union in particular dropped its long-standing refusal to do so.

Comecon countries are *increasingly concerned about* EC plans for a barrier-free internal market by 1992, which could leave Comecon even more strictly excluded.

Attempts to match the EC integration process have run into severe political differences. This week, only seven of the 10 members agreed on a plan to set up a commercial bank to finance joint ventures, but it will go ahead regardless, Mr Stefan Zawodzinski, e deputy secretary of Comecon, said in an interview.

There was also a difference of opinion over how to introduce e convertible rouble within the organisation, which was the subject of e wide-ranging debate without conclusion.

Another controversial move is an instruction to Comecon's two existing banks - the International Investment Bank and Economic Co-operation Bank - to review their finances, and propose moves to cut losses, such as increased interest rates on loans to member states.

Mr Zawodzinski, the deputy secretary responsible for external relations, said Comecon will be proposing eight areas for co-operation in its negotiations with the EC, with a first round of talks expected in Brussels next month.

They are environmental protection, transport, technical standards, science and technology, energy, N-power, statistics and economic forecasting.

The Communist bloc has avoided proposing any overtly trade question for the talks, in the knowledge that the EC insists such issues can only be negotiated bilaterally with individual Comecon members.

"Ws are being pragmetic," Mr Zawodzinski said. "It seems to me that in all these different fields we shall find some common language. At every step we shall stress the need for mutual advantage. We do not want to take anything free of charge."

He said that in each area, Comecon would prefer to deal with e limited range of specific subjects - such as preventing acid rain in the environmental field - rather than broad generalities, in the hope of reaching practical agreements.

Possibly the most important area of all would be technical standards, and the desire of Comecon to be included in setting standards likely to determine any future entry into a single European market.

He admitted that the meeting had seen a wide range of opinions. Three member states, which he would not identify, refused to go along with the plan for e joint venture bank.

On the question of the convertible rouble, he added that all 10 members agreed on the long-term aim, bnt did not agree on how to get there.

As for the requirement for the existing Comecon banks to pay their way "to act like banks", Mr Zawodzinski admitted that any proposal to raise their very nominal interest rates would cause problems for the poorest borrowers, like Vietnam, and Cuba.

Peking in $400m mill venture

CHINA and the Soviet Union are preparing their first major joint venture, a pulp mill, involving an investment of $400m to be shared equally, the official China Economic News Service said, Reuter reports from Peking.

The mill, in Heilongjiang in north-east China, will have an annual output of 250,000 tonnes of bleached sulphate soft pulp, mostly for sale within China and the rest for export to balance its foreign exchange accounts.

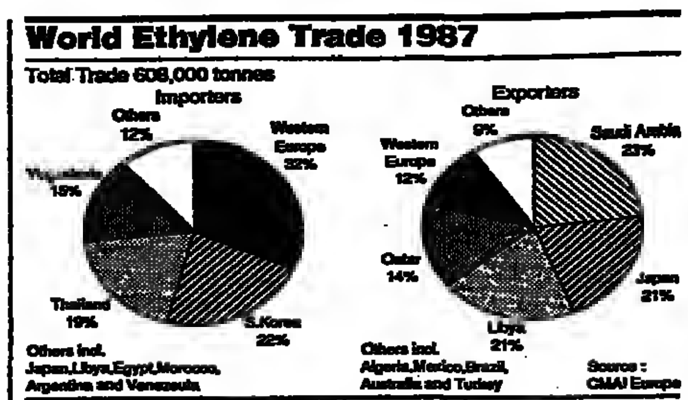
The Soviet Union will supply 1.5m cubic metres of timber a year, mostly hard pine, and China will provide coal, salt, electricity, oil and other materials. The Soviet side will supply pulp-making equipment and technology. Advanced equipment that neither country can provide will be imported. Construction of the mill is due to begin in 1990 and operations to start in 1992.

The New China News Agency has also reported that a five-member delegation from the Bank of China is visiting the Soviet Union to sign two agreements covering co-operation in banking and settling of accounts in barter trade. But it added that problems such as opening a bank account and settling a trade account still have to be settled.

Chinese customs figures show bilateral barter trade in the first eight months of 1988 was worth $1.8bn, an increase of nearly 30 per cent on the same 1987 period.

World Ethylene Trade 1987

Total Trade 608,000 tonnes



Shortfall sparks US about-face on ethylene

Peter Marsh explains why US industry is turning to imports

LIKE shipping coals to Newcastle, was one chemicals industry consultant's description of the US decision to start importing the commodity chemical ethylene.

Imports of the material, one of the basic feedstocks of the chemicals business with world sales of about $35bn a year, are virtually unheard of in the US, which in normal years produces all the ethylene it needs from its own oil and natural gas.

1988 is, however, by no means normal for producers and users of ethylene, a raw material for thousands of chemicals products including many basic plastics such as polystyrene and polyethylene.

In the early part of the decade, the world was producing too much ethylene, but demand for the chemical in recent months has started to outstrip supply – especially in the US, home of the world's biggest chemicals industry.

The shortages are the result of surging demand for chemicals in many countries and the fact that, since the world recession at the beginning of the 1980s, many big chemicals concerns have been slow to reinvest in new plants that could otherwise have coped with the increased demand.

The production shortfalls have led to an upward spiral of ethylene prices over the past 18 months, together with a spate of somewhat belated announcements of new ethylene plants, which should ease supply problems over the next few years.

Pipeline

The shortfalls also sparked off the US ethylene import scheme, a joint venture between chemical companies Exxon and Chevron.

The companies are building a terminal on the Houston Ship Canal in Texas which will take loads of ethylene from ships and transport them into a pipeline linking many big US chemicals plants on the Gulf Coast.

Exxon and Chevron say for commercial reasons they can divulge few details about the importing operation. They are not disclosing how much the terminal is costing, although this may be about $15m.

It is thought that the companies aim to ship into the US no more than about 100,000 tonnes of ethylene a year – a small amount given that one ethylene plant can produce five times this quantity and that annual US consumption of ethylene is running at about 16m tonnes.

The psychological effect of shipments is likely to be substantial, however, according to Mr Darryl Aubrey, an industry analyst at Chem Systems, a chemicals consultancy in Tarrytown, New York. "Exxon and Chevron are telling their customers (for ethylene) that they are doing something about *improving the supply* problems," he says.

One important question, however, is where the ethylene imports are going to come from.

While the US has been experiencing shortages of the material, much the same is true of other parts of the world. "There is no surplus of ethylene at the moment," says Mr Robert Muller, a chemicals expert at SRI International, a California-based consultancy.

Many observers expect the new terminal will largely ship in ethylene from Exxon's European chemicals complexes. But Exxon's two biggest ethylene plants in Europe – at Mossmorran in Scotland and in Normandy, France – are already running flat out to meet local demand.

Logistics

Other producers of ethylene which might have some material to spare over the next few years include Brazil, Saudi Arabia, Mexico and Japan. Libya is e big exporter of ethylene – which it sells mainly to Europe – but shipments to the US are unlikely on political grounds.

The sheer logistics of transporting the substance around the world also presents a problem. At normal temperatures, ethylene is a highly inflammable gas.

When it is shipped, it has to be cooled to below its boiling point of -104 deg C. This requires the use of special vessels fitted with low-temperature cooling systems.

In Europe, ethylene is routinely transported by ship for relatively short journeys. But observers think it would be a different matter to transport the hazardous cargo thousands of kilometres from plants in Europe or the Middle East to the new terminal in Texas.

The transport difficulties are one reason why total shipments of the material are fairly small. The industry generally prefers to move the substance by pipeline along short distances between chemical plants.

Last year, world ethylene shipments came to 608,000 tonnes, about one-hundredth of total consumption, according to CMAI Europe, a chemicals industry consultancy.

Logistics might force Exxon and Chevron to rely for their ethylene on cargoes from fairly close to the southern US – such as from South America.

With both companies being extremely unwilling to discuss their policy, chemicals-industry analysts are watching for the first signs of unloading activity at the new terminal for evidence that the various problems have been overcome.

Fiat challenges UK on Nissan local content

By John Wyles in Rome

BRITISH government claims that the passenger saloon being produced by Nissan at its new British plant has at least 60 per cent local European content are being disputed by Fiat, the Italian carmaker currently heading the European sales league.

Mr Vittorio Ghidella, the managing director of Fiat Auto, said in an interview this week that a detailed study of the Nissan vehicle had revealed that only 20 per cent of its parts were clearly of European production.

A further 32 per cent was "ambiguous" in the sense that the origin and working of the parts could not clearly be established as European, while the remainder was definitely of non-European origin.

The local content issue is at the centre of a row between the Britain and France following Paris' announcement that it will include the Nissan Bluebird inside the quota pegging Japanese imports into France at 3 per cent of the national car market until the local EC content reaches 80 per cent.

The Italian government has not yet taken a position on the local content issue although senior ministers are convinced of the need for an EC policy regulating Japanese car imports and those products made in the European Community.

They believe that Japanese motor cars pose one of the most serious problems in relation to the opening of the internal market.

Currently, there is no official EC rule setting 60 per cent as the benchmark for an EC product, but Britain, with some European Commission backing, says it has become so under existing Community practice.

Mr Ghidella said Fiat was happy to face Japanese competition when they were producing vehicles on the same basis as European manufacturers.

He thought that the French government was right to react to the problem but did not expect Italy to act likewise.

More chips for Hitachi

HITACHI says it will sharply increase semiconductor purchases from the US and other countries, AP-DJ reports from Tokyo.

Hitachi, Japan's largest maker of electric and electronic products, said yesterday the company'e semiconductor purchases will climb to at least Y14bn (£59m) in fiscal 1988 ending next March, from about Y10bn in the previous fiscal year. Officials said more than 90 per cent of those semiconductors will be imported from the U.S.

The company said it was possible imports might rise as high as Y15bn. Earlier this year, Hitachi had anticipated an increase to about Y13bn in fiscal 1988 but it decided to revise the purchase plan in view of better-than-expected demand for electronic products.

In line with Japanese government efforts to raise semiconductor imports and ease trade frictions with the US, Hitachi, along with other Japanese electronic companies, has been boosting semiconductor imports since 1984.

UK NEWS

More cash expected for nurses wage award

By Charles Leadbeater and John Gapper

THE GOVERNMENT has not ruled out providing more money to fund the 15.3 per cent nurses pay award, Mr Kenneth Clarke, Health Secretary, is expected to tell the Conservative Party conference at Brighton today.

He will reiterate that the Government believes there is little point in further negotiations with nursing unions over the key issue of how the regrading of sisters who share responsibility of wards.

Despite continued protests by unions and opposition politicians yesterday, Mr Clarke insisted the Government would press on with implementing the new clinical grading structure for 487,000 nursing staff.

Mr Clarke maintained his refusal to meet union representatives at Brighton after the breakdown of talks in the nursing and midwifery staffs negotiating council on Tuesday night. Union leaders have called for arbitration on the sisters' re-grading

The unions and the National Association of Health Authorities have estimated that an extra £100m to £200m will be needed to implement the new structure in addition to the £803m already allocated by the Government.

The Government is examining preliminary regradings submitted by health authorities, and several authorities have been asked to revise their gradings in order to prevent regional variations.

Mr Clarke is expected to tell the conference that extra funding for the nurses' pay award will not eat into funding for other parts of the National Health Service.

Health spending is understood to have been a relatively uncontentious part of this year's public spending round.

Mr Trevor Clay, general secretary of the Royal College of Nursing, said unions believed there was still room for negotiation over the re-grading of ward sisters.

He said there was still widespread support for the nurses' case.

Prescription forced on nurses, Page 14

Child benefit and defence hinder spending accord

By Peter Riddell, Political Editor, in Brighton

THE DEFENCE budget and the future level of child benefit have emerged as the most difficult obstacles to reaching agreement of next year's public expenditure plans.

This follows progress in intensive talks held at Brighton this week between Mr John Major, Chief Secretary to the Treasury, and other ministers attending the Conservative Party conference.

Overall, the difficulties have been narrowed down to defence, health, transport, and the child benefit aspects of social security.

Mr George Younger, Defence Secretary, is pressing for a substantial increase in defence spending above existing plans to maintain the policy of ordering at least three new frigates a year, and to purchase new equipment for the army, especially a new range of tanks.

On child benefit, Social Security ministers are furious with the Treasury's insistence that child benefits should be frozen at £7.25 a week per child for the second year running. This would save nearly £130m a year.

The Department of Social Security is seeking to increase child benefit only in line with the past year's inflation, an increase of 40p a week. It is not proposing to recoup the previous freezing of benefit.

Social Security ministers believe increasing child benefit is the best way of helping poor families.

Agreement has been reached, or is near, on the education, Home Office, energy, agriculture, employment, and Trade Ministry budgets.

It has also become clear that agricultural spending next year will be less than expected. This is the result both of reforms in the Common Agricultural Policy agreed in the spring and of a substantial fall in export refunds on cereals, produced by the impact of the US drought.

In addition to these savings, the Treasury also has the benefit of the sharp fall in unemployment.

However, savings here of £1bn have been largely offset by increased spending on housing benefit, on invalidity payments and other changes.

It is still uncertain whether the Star Chamber committee, which arbitrates spending claims between departments, under the chairmanship of Mr Cecil Parkinson, Energy Secretary, will be called into operation at the end of next week if the ministerial talks appear stalemated.

Those close to the process believe the Star Chamber will have to operate, given the difficulty of some of the unresolved budgets. There is some expectation that Mr Younger will want to settle beforehand.

There has been some amusement among ministers about the jockeying between the Treasury and Mr Parkinson for the credit of settling next year's spending plans.

The Treasury would like everything resolved without recourse to the Star Chamber.

Mr Parkinson has said publicly the threat of its existence is enough to force ministers to make concessions without a meeting being held, as happened last year.

Apart from Mr Parkinson and Mr Major, the Star Chamber members will be Mr John Wakeham, Leader of the House of Commons, Mr John MacGregor, Agriculture Minister and a former Chief Secretary to the Treasury, and possibly Mr Tony Newton, Chancellor of the Duchy of Lancaster.

● Mr John Moore, Social Security Secretary, raised a question over the future of benefits for some single parents, in the Government's continuing welfare revolution, PA reports from Brighton.

He said that the Government's review of social security would continue, with the aim of encouraging "independence, self-reliance and personal responsibility."

He also signalled a crackdown on fathers who paid nothing towards the support of their wives and children, and promised tougher measures against adults who claimed unemployment benefit "without making any real effort to find work."

THE CONSERVATIVE PARTY CONFERENCE AT BRIGHTON

'Active citizenship' urged to help tackle crime wave

By John Mason

A CALL by Mr Douglas Hurd, the Home Secretary, for "active citizenship" to form the basis of the fight against crime yesterday convinced a Tory conference which had voiced its traditional demands for tough new initiatives.

Mr Hurd faced the rough ride often given to Tory home secretaries, including demands for the restoration of capital punishment.

But his insistence on the importance of greater individual responsibility won him a standing ovation.

He was also cheered when he announced new pilot projects for electronic tagging of people awaiting trial and a further increase of 1,100 in the number of police.

The conference gave emphatic support to demands for the death penalty and an *ad hoc* vote showed representatives substantially in favour of its re-introduction.

Mr Hurd faced cries of "Shame" when he said parliament had voted against the death penalty. He agreed the issue would continue to arouse strong opinions, but insisted that capital punishment could never be the answer to all crimes of violence in general.

Explaining the need for "active citizenship", he said that increasing police manpower and penalties would not be enough if the steady flow of new criminals from schools and homes continued.

"The challenge of the 1990s is to rekindle our nation's strong tradition of citizenship. What we have to do is grub up the roots of crime and that is the way to do it.

"The game of dodging responsibility, the game of passing the parcel from one group to another just has to stop," he said.

This meant parents, schools and broadcasters taking responsibility for their influence on the young.

"We want not just a property-owning but a responsible democracy. That is why the accusation that ours is a selfish creed or a selfish party simply does not stick."

He said crime prevention measures had started to work, reducing some less serious crimes. More emphasis on prevention would enable resources to be concentrated against the violent crime which caused the greatest distress.

Sentences for robbery and rape had increased, new knife legislation had been introduced and more prisons built.

But Mr Hurd also stressed the need for alternative punishments to prison for non-violent offenders.

Rather than keeping such offenders in prison, at a cost of £1,000 a month, the Government wanted to see them give something back to society.

"We don't want a soft option. We want to see a vandal doing demanding work – clearing up his neighbourhood, scrubbing graffiti off walls, putting right the damage he has caused."

Electronic tagging could help enforce curfews on such offenders, he said.

Mr Edward Heath, former Conservative Prime Minister, is likely to disturb the conference's placidity this afternoon in the foreign affairs debate. He will criticise the Government's approach to the European Community.

Party leaders believe he may be given a rough ride, which could united opinion behind Mrs Thatcher.

● Mr Roy Hattersley, shadow Home Secretary, accused Mr Hurd of "sloppiness" in failing to make clear in his speech that tagging was intended as an alternative to remand custody rather than to bail.

He accused Mr Hurd of opting to "go for the headlines instead of producing policies which will actually reduce crime."

Tagging was "a farcical system which has failed in the US and is inoperable in Britain" and was opposed by the probation service and others who would be most closely involved.

The proposal was attacked by Ms Frances Cook, director of the Howard League, the penal reform group.

"It is bizarre and unprincipled to use electronic shackles on people before they have gone for trial, when new legislation will be needed to use tagging on convicted prisoners," she said.

Mr Harry Fletcher, assistant general secretary of the National Association of Probation Officers, said: "Evidence from the United States shows the device has not reduced the prison population."

Police check Douglas Hurd's conference pass yesterday

Trading reformers win time to debate sanctity of Sunday

Michael Cassell looks at the resurgence of a potentially divisive issue

THE subject, says one of the protagonists, "will split the party from top to bottom. It is the issue which brings the principle of individual freedom right up against the sanctity of family life."

The issue which threatens to inject an element of high passion and dangerous uncertainty into a conference week of numbing predictability, is none other than the reform of Sunday trading.

There must have been a deep, collective groan from an executive committee for whom dissent is a dirty word when it became clear that the controversial issue had topped a ballot to fill one of two vacant slots in the week's debates.

Today, the conference will address a motion which calls for "sense and consistency" in Sunday trading laws and which recognises the potential growth and employment opportunities they could generate.

The debate will give fresh impetus to an issue that has already embarrassed the present Government and could do so again.

In 1986, the Government's attempt to reform the 40-year-old Sunday shopping laws collapsed in a Commons shambles when 78 Tories voted with the Opposition to defeat its liberalising measures.

This week, before the ballot result was known, Mr Timothy Renton, the Home Office minister, said Sunday trading reform represented "important unfinished business" for the Government.

He has already emphasised his determination to bring "sense and consistency" to an area of legislation covered by the criminal, rather than the civil, law.

They are laws which, given the changing nature of retailing, have continued to yield an ever-expanding and infamous list of anomalies and abuses.

According to some opinion polls, two out of three people now want legislative changes to permit a wider range of shops to open on Sundays.

Opponents of deregulation, however, include the trade unions, many small retailers and shopworkers, churchgoers and clergymen.

As the laws stand, retailers can sell fodder for a mule without fear of retribution but are banned from selling cat or dog food. They can sell dried milk but not gin.

The reality is that an increasing number of retail outlets have simply chosen to ignore the laws and to open for business.

The Government could have another go in the 1989-90 parliamentary session and ministers are considering several options.

They include revising the present list of goods which can be sold, total deregulation, allowing local authorities to impose some restrictions, or partial deregulation in the shape of half-day Sunday opening.

According to Mr Roger Boaden, a Conservative Central Office veteran who left to head the newly-formed Shopping Hours Reform Council, members of a free society should be free to choose how to spend their Sundays.

In the other corner, the Keep Sunday Special Campaign, with support from the Conservative Family Campaign, invokes the words of Winston Churchill – "Sunday is the birthright of every British subject" – to support its case.

KSS, which has to contend with allegations that it is a reactionary and outdated organisation, has launched a national petition to demonstrate the strength of support for the principle of the traditional Sunday.

Whatever the outcome of today's debate, the Government is preparing, yet again, to pick up a political hot potato. Mr Renton apparently has a strategy to reconcile the warring factions: "The answer is quite simple," he confided yesterday. "We rename Sunday Friday."

Construction worst hit by dearer borrowing

By Ralph Atkins, Economics Staff

THE CONSTRUCTION industry is the sector worst hit by higher interest rates, a leading securities house said yesterday.

A two percentage point rise in interest rates reduces construction output by 1.2 per cent over three years, Phillips & Drew estimates.

Its league table of sectors worst hit by higher borrowing costs is based on Treasury simulations of their impact on spending and investment in the UK economy.

The results provide a guide to the impact of the 4½ percentage point rise since May in base rates from to the present 12 per cent.

After construction, the sectors worst affected by higher rates are building materials and food manufacturing. Stores and leisure industries are likely to be hit by the effect of higher interest rates on consumer spending.

Phillips & Drew says the impact of higher interest rates is usually small but can vary by a factor of three between sectors.

At the bottom of the league table are the man-made fibres, electronics and chemical sectors. For each of these, a two percentage point rise in interest rates will reduce output by just 0.4 per cent over three years.

The report is based on a computer model of the economy which traces flows between different industrial and service sectors.

It splits the impact of interest rates on each sector into direct effects and second round effects due to changes in other sector's output.

The impact on output in the building materials sector, for instance, is largely an indirect result of the fall in construction.

Packaging, paper, printing, publishing and telecommunications also show significant second-round effects.

THE IMPACT OF HIGHER INTEREST RATES*

Sector	% effect on output	Sector	% effect on output
Construction	-1.2	Textiles	-0.7
Building Materials	-1.0	Motors	-0.7
Food Manufacturing	-1.0	Electrical(consumer)	-0.7
Stores	-1.0	Publishing	0.7
Leisure	-1.0	Energy	-0.6
Office Equip.	-1.0	Other indust. mats.	-0.6
Tobacco	-0.9	Electrical(industrial)	-0.6
Agriculture	-0.9	Transport	-0.6
Banking	-0.8	Metals	-0.5
Clothing	-0.8	Health products	-0.5
Footwear	-0.8	Other services	-0.5
Posts & Telecoms	-0.8	Mech. engineering	-0.5
Brewers	-0.8	Man-made fibres	-0.4
Other manufacturing	-0.7	Electronics	-0.4
Packaging & Paper	-0.7	Chemicals	-0.4

*Long term effect on output of a 2% rise in interest rates

Source: Phillips & Drew

IBA looks into charity adverts on television

By Raymond Snoddy

THE Independent Broadcasting Authority is considering allowing political and religious advertising for the first time on UK television.

The issue has already been raised with the Home Office, which is responsible for domestic broadcasting, although no detailed talks have taken place.

The IBA, regulatory body for commercial broadcasting, raised the possibility of such advertising in a document, Broadcast Advertising by Charities, published yesterday.

At the moment, bodies the main purpose of which is to campaign for changes in legislation or public policy are excluded from advertising on television.

The IBA document suggests a relaxation of the 33-year-old bar on charities buying advertising time on commercial television. It is seeking charities' views before submitting formal recommendations to Mr Douglas Hurd, the Home Secretary, later this year.

King of the castle ventures abroad

The legend of Tayto crisps is alive and well in the heart of Ulster

Making a profit from posting potato crisps abroad, or potato chips as they are known in the US, might sound like the bird-brained scheme of a nutty professor. But to the boffins of Tayto Castle, deep in the heart of Ulster's countryside, it's a serious business and an important marketing ploy, writes our Belfast correspondent.

"Our cheese and onion flavour is world-famous," Mr Raymond Hutchinson, Tayto's joint managing director, exclaims proudly.

"We operate an overseas postal service and you will often find people at airports carrying boxes of our crisps under their arms. It can be a bit like a drug for some, constantly in need of their favourite flavour."

The Tayto's success story in Northern Ireland began in 1955 when Mr Hutchinson's father, Thomas Hutchinson, bought a 19th century castle in County Armagh for £5,000.

Mr Hutchinson senior had acquired the right to use the Tayto brand name from a company in the Republic of Ireland and he soon established his products as market leaders in Ulster.

The legend of Tayto Castle is well known to anyone who has ever sampled the product because every packet carries a fully-illustrated story of how the crisps are made.

Today Tayto is one of the most successful independent companies in the UK's snack foods centre, producing 500,000 packets of crisps every day. It has more than 30 per cent of the crisp and snack market in Northern Ireland.

Last year the company made a profit of £1.2m on a 26m turnover and the 29 per cent increase in volume this year has brought the prospect of even better returns.

Twelve flavours of crisps and the recently-launched "crinkle cuts" has helped to keep Tayto ahead and new lines in "jacket fried crisps" and "children's 5p snacks" are in the pipeline.

But perhaps the company's most enterprising development has been the use of the silicone chip in the search for the perfect crisp.

Mr Peter Viggers, Northern Ireland Industry Minister, last week officially opened a new computer-controlled potato store at the company's Tandragee Headquarters as part of a £2.5m investment backed by the Industrial Development Board for Northern Ireland.

The 28,000 sq ft store is one of the most modern in Europe and will be used to house a year-round supply of top-quality, locally-grown potatoes.

The environment of the store is scientifically-controlled by computer technology which ensures the potatoes are kept in correct conditions of temperature and humidity all year.

Mr Hutchinson said: "This new store will give us a large supply of top-quality potatoes all year. As well as insisting on top-quality potatoes from our suppliers, we also place stringent quality standards throughout the production process and have a quality-control department under a qualified fruit technologist.

"The investment programme will also include the introduction of computerised weighing and packing machines which will ensure Tayto maintains its place as one of the most modern and efficient snack food plants in Europe."

Last week's investment will also enable Tayto to create 36 extra jobs during the next two years.

Jaguar's global sales rise 8% over nine months

By Kevin Done, Motor Industry Correspondent

JAGUAR, the UK luxury car maker, increased its worldwide sales in the first nine months of the year by 8 per cent to 38,008 units and increased production by 15 per cent despite falling demand in the US, its single most important market.

Jaguar profits have slumped this year chiefly under the impact of the fall in the value of the dollar and the weakness of the US market for luxury imported European cars, which has prevented the company from increasing its US prices.

While profits more than halved in the first half of 1988 to £22.5m, the company's weakest performance since privatisation in 1984, Jaguar sales have continued to rise, although less quickly than the company was confidently predicting a year ago.

In the UK, Jaguar's second biggest market, sales have increased by 31 per cent in the first nine months to 12,248 units, while sales to continental Europe have also jumped by 31 per cent to 6,113 units.

The biggest gains were achieved in France (plus 40 per cent), Belgium (plus 31 per cent), Italy (plus 28 per cent and Spain (plus 25 per cent).

Jaguar is also making increasing inroads into overseas markets, led by Japan, where sales have more then doubled to 778 units in the first nine months in line with reaching the company target for sales of more than 1,000 cars in the full year.

Sales in the US, which account for 40 per cent of the total, have dropped by 8.7 per cent in the first nine months to 14,913 cars from 16,340 a year ago, but Jaguar said yesterday that there were now positive signs that the trend of falling sales in the US had been reversed.

The introduction of new models for the 1989 US model year had "produced a boost in order intake at dealer level which provides some evidence of an increase to demand", said the company. It forecast that November US sales would be higher than a year ago.

Jaguar claimed that it had outperformed most of its imported rivals without resorting to discounting and sales incentives and that its US stocks were lower than its competitors. BMW and Mercedes-Benz had been "discounting savagely", said Jaguar.

Production rose by 15 per cent in the first nine months to 40,353 units and is expected to total 52,000-58,000 units for the year and at least 55,000 units in 1989 compared with 48,020 in 1987. Some 12 months ago Jaguar had forecast production this year of 56,000 units and 60,000 in 1989, but these ambitions have been hit by the fall in US sales.

House purchase loans reach £43.4bn peak

By Simon Holberton, Economics Staff

THE STRENGTH of demand for housing finance during the summer was yesterday underlined by official figures which showed that UK and foreign banks lent a record £43.4bn for house purchases in the three months to the end of August.

The Bank of England figures showed that lending for housing was 37 per cent higher during that quarter than for the same period a year ago and 8.5 per cent higher than for the March to May period.

Lending to property companies was also buoyant. It rose during the quarter by £2.1bn to £17.8bn, to stand nearly 60 per cent up on a year earlier and 14 per cent higher than the previous three month period.

Mortgage lending rose by £3.7bn, but a part of this may have been because borrowers rushed to complete purchases before changes to the mortgage interest relief scheme. Since August there have been signs of a slower borrowing pace.

Sterling gets that shrinking feeling

By Ralph Atkins, Economics Staff

THE FIVE pound note in your pocket is on the decline – and that's official.

From 1990 the £5 note will look just 83 per cent of what it used to be, the Bank of England said yesterday. The £10, £20 and £50 notes will also shrink.

Collectors of bank notes – for their historic, rather than monetary, value – with an affection for the current Series D range have limited time to amass prize specimens.

The Bank says the growing use of high denomination notes means smaller dimensions are more convenient. Britain has big notes by international standards and slimline dimensions will cut production costs.

"The bigger the note the more trees you have to knock down," said an environmentally-conscious Bank official.

The diminutive set, designated Series E, will be introduced in phases to replace the existing 20-year-old design. The £5 note will change first.

Currently, the number of £5 notes in circulation totals 362m. The £10 note is more popular with about 610m.

The official explanation for the early announcement is that it gives manufacturers and users of note-handling equipment time to adjust.

Perhaps more importantly, it will ease the shock for a British public which is notoriously conservative about currency changes and has seen its bank notes contract roughly in line with the demise of the Empire.

Like car manufacturers, the Bank has a policy of constantly upgrading its notes. However Series E represents a complete new model. It is the fifth collection since Series A which ran from 1928-1962.

As with existing notes, the modified denominations will vary in size to help the blind.

They will have an updated portrait of the Queen on the front and the back of each denomination will show a portrait of "an historical figure." So far no selection has been made from among Britain's great and worthy.

Hurd fails to arrest worries over crime

Police seek even further manpower additions, says Alan Pike

There were no cries of wild relief from Britain's police chiefs yesterday when they heard Mr Douglas Hurd, Home Secretary, announce a 1,100 increase in police manpower. They were looking for increases on a much bigger scale – and believe public opinion is behind them.

The three organisations which together represent all ranks of the police – the Association of Chief Police Officers, the Police Superintendents' Association and the Police Federation – have all given a warning to Mr Hurd that they face a manpower crisis.

Calls from the police for increased resources are far from new. Police strength has grown by more than 18,000 since 1979 and the calls have not abated.

But a plea last week was phrased in the language of crisis. Mr Roger Birch, chief constable of Sussex, speaking for the three organisations, said that the police were losing control of the streets and were beginning to lose lose public support.

"The public is crying out for something we can no longer in truth deliver," he told the Home Secretary.

When Mr Birch made his comments senior officers already knew that Mr Hurd was certain to announce an increase in police numbers at the Conservative Party Conference yesterday. Home Office officials have been in negotiations with the Treasury over extra resources for some time.

As a result, Mr Hurd was able to announce a 1,100 increase in strength next year with further "substantial increases" later.

Mr Birch's call to the Home Secretary was significant for its clarity in spelling out what the police believe is at stake if they do not get the resources – Britain's entire traditional concept of policing.

The image of the police which senior officers like best is of the traditional "bobby on the beat" – the local officer who, simply by being there, raises public confidence and acts as a deterrant to crime and hooliganism. The image of themselves which the police like least is as a paramilitary force, dashing around by the vanload and wading in with riot gear.

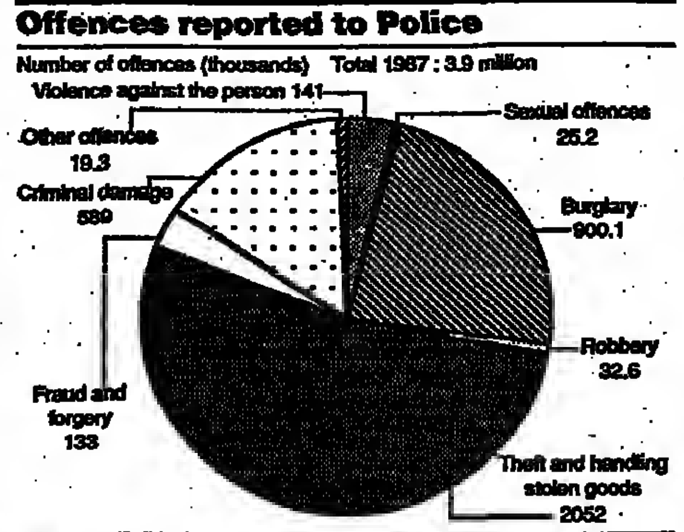
Yet police chiefs believe it is the very absence of enough officers on the streets which is turning an increasing number of trivial incidents into violent confrontations.

One of the problems which the police face is the absence of any proveable link between police numbers and a reduction in crime. There was, to the year to June, 1988, a 0.6 per cent drop in overall crime – the first reduction for five years. Yet the public perception is probably quite different because crimes of violence – one of the main areas of public concern – rose by 16.9 per cent.

Pressure groups on the radical Right, having made some progress in persuading the Home Office to move towards cautious experiments with private prisons, have turned their attention to the police. They are questioning why the service should be excluded from the drive for greater efficiency which has swept through most of the public sector during the Thatcher years.

Offences reported to Police

Number of offences (thousands) Total 1987: 3.9 million



Mr Hurd has recently shown a few signs of pondering such issues himself. He has spoken of the need to get to grips with the problem of the lazy police officer – once through their probationary period, police men and women enjoy high degrees of protection from dismissal unless they commit serious disciplinary offences.

There are now signs of the Home Office taking a growing interest in police management and efficiency.

Chief police officers respond by stressing that the service has already improved efficiency. Civilianisation – a sort of police privatisation in which non-operational tasks are taken over by cheaper civilian workers – in far advanced although sometimes with only qualified support.

A cartoon in the latest issue of Police, the Police Federation journal, shows an injured Home Office official being carried out of a courtroom in which a brawl is in progress. "Yes, it was our idea to get police officers off court duties, to deal with all this violence on the streets," the official comments.

Police officers fear that calls for greater efficiency might lead to an attempt to move to some form of policing-by-results, based on crime clear-up rates and similar measures. This, they say, could produce a much more selective and aggressive form of policing.

In reality police forces already operate a type of policing-by-results system.

And the argument about improving police efficiency quickly becomes circular. Much successful police work depends on making contacts and gathering information. This relies upon having sufficient personnel to do the job. Britain's police forces will, therefore, pause briefly to thank Mr Hurd for the increase in their numbers announced yesterday, before renewing calls for more of the same.

Government rejects bid for rise in grants to replant trees

By John Hunt, Environment Correspondent

THE GOVERNMENT last night rejected a request to increase the amount of grants it has already provided for the replacement of trees lost in the great storm which hit England to October last year.

The Government made its response to a report issued last night by the technical co-ordination committee which was set up to report on the effects of the storm.

The committee estimates 3.7m cubic metres of timber were blown down in woodlands alone, 1.5m trees were affected in orchards, 200,000 non-woodland trees were lost in the countryside and 500,000 were badly damaged.

The report recommends an examination of the adequacy of present grant schemes for replacement of trees lost in the storm. All the contributors to the survey of storm damage indicated the need for careful planning and research to restore trees.

"These require additional monetary and manpower resources," it states. But a spokesman for the Department of the Environment said the Government had already given £7m for the period 1987-1990 to replace trees.

The Government's response says present grant schemes are adequate but the rate of planting in affected areas will have to be carefully monitored.

It points out that it had already agreed a supplement should be paid on top of normal Forest Commission planting grants in the affected areas. Additional planting grants were also made available through Task Force Trees and English Heritage.

The Environment Department will, however, make an additional £18,000 available for the Arboricultural Advisory and Information Service.

Water bodies face poor service fines

By Our Environment Correspondent

WATER AUTHORITIES may face a system of financial penalties for poor customer service when they are privatised at the end of next year.

A customers' charter that would include a business courtesy scheme is under discussion between the representatives of the water industry and the Government.

The discussions are taking place before publication of the water privatisation bill which will go before Parliament in the coming session.

It is intended that the 10 large water authorities should go private at the end of next year.

The possibility of financial penalties was disclosed by Mr Bill Harper, managing director of Thames Water, when he spoke to the national water conference in London.

He said that the industry was discussing with the Government a system of automatic payments to compensate customers for poor performance in key areas. It would, for instance, entail payment if letters were not answered or appointments not kept.

"The management process will have to be consumer orientated," he said.

Why cosmetics have entered a grey area

Della Bradshaw examines the implications of a debate about sophisticated creams

Beauty is only skin deep, so the saying goes. But as cosmetics companies increasingly promote their products on the basis of high technology content, it becomes rather less apt.

Indeed, behind the latest developments lie layer upon layer of definition and legal interpretation that go to the heart of one of the fastest growing parts of the cosmetics industry.

In the US, the Food and Drug Administration (FDA), which is responsible for licensing drugs, is locked in battle with the blue chip cosmetics companies over the claims those companies make for some of their products. The FDA believes that many of the claims are unjustifiable and has told 23 companies that they have to change their labelling and advertising.

One cosmetics company, Estée Lauder, has decided to retaliate by filing a suit in the Federal District Court in Washington DC. The company has asked the court to make an independent judgment about whether or not its labelling and advertising claims are fair, calling the FDA's decision "arbitrary and capricious".

The clash of opinions centres on the expensive creams which cosmetic companies claim have anti-ageing properties. Assertions made about the products include that they:

- increase oxygen consumption by skin cells;
- speed up the repair of DNA, the genetic building block molecule;
- stimulate the growth of skin cells and the connective tissue in the cells;
- replenish matrix proteins, such as collagen, which form the skeleton and the framework of the skin.

The FDA says that these can amount to medical claims, which may mean that some of the products should be licensed as drugs.

At the centre of the argument is a small but lucrative part of the cosmetics business. Estée Lauder estimates, for example, that $100m worth of its annual business in the US alone is under threat because of the FDA ruling.

The market for anti-ageing products is one of the fastest growing areas of the cosmetics business. This is fed by the increasing number of older consumers with greater disposable income than hitherto, and by the trend for men as well as women to be drawn on to the anti-ageing bandwagon.

It was the introduction of an anti-ageing product, called Glycel, that sparked off the dispute between the FDA and the American companies, in April of last year. Glycel was endorsed by Dr Christiaan Barnard, the former heart transplant surgeon.

When the FDA began to look into the medical claims made by the manufacturers of Glycel, it discovered that many established cosmetics companies were making similar statements. It wrote to 23 companies telling them to review their advertising.

Most have made minor changes, but the FDA says that it is still not satisfied with the progress. Hanging over the heads of the cosmetics companies is the threat that if they do not toe the line, the FDA will seize their products.

In Europe, although the debate has beeo more low key, the argumeot remains the same: where does the line fall between a cosmetic and a drug?

The UK Department of Trade and Industry (DTI) has begun to investigate certain products which are said to regenerate cell growth through the inclusion of extracts of spleen. According to a spokesman, the DTI is concerned that if the prodncts make healthy cells proliferate, they may make cancer cells proliferate as well.

One of the most outspoken lobbyists for the licensing of certain anti-ageing cosmetics is Malcolm Greaves, professor of dermatology at St Thomas's Hospital, London. "I suspect a small percentage of these performance cosmetics, probably around 10 per cent, may give rise for concern, whereas in 90 per cent of the cases companies are just making wild claims in their advertising. The problem is we just don't know."

Like the FDA, Greaves believes that if the products affect the structure of the skin, they are drugs. If not, their advertising should be changed.

Two controversial ingredients of many anti-ageing creams are liposomes and niosomes. They wrap themselves around the active substances in the creams to make it easier for those constituents to penetrate the skin.

Liposomes and niosomes are also being investigated by pharmaceutical companies as a way of transporting drugs into the body. In the US in particular, millions of dollars have been invested in research by drug companies on the use of the two substances for transdermal drug application.

The Advertising Standards Anthority (ASA) in the UK asked its team of dermatologists to look at the liposome process to determine its effect. It concluded that cosmetics incorporating liposomes and niosomes do allow substances to penetrate the skin and therefore have an ameliorating effect on superficial lines. As a result, the ASA has given a number of companies the go-ahead to claim in advertisements that the creams do help to eliminate wrinkles.

Ian Kelloway, Professor of Pharmaceutics at the University of Wales, says that the liposomes in themselves are not harmful; it is the substances that they transport into the skin which should be under scrutiny.

He has investigated some of the other ingredients and his conclusion is that the anti-ageing creams do not need licensing. "The products themselves use very clever formulae, but they don't seem to me to justify the use of such sophisticated technology. They are a very expensive way of buying a moisturiser."

Companies refute this argument by saying that the proof of the creams is in the using.

"The product speaks for itself," says a spokeswoman for Christian Dior of the company's anti-ageing cream, Capture, which has been on the market for two years. "It was intensively researched by the Pasteur Institute, and people who have used Capture continue to buy it." The product accounts for nine per cent of Dior's beanty business, which includes perfumes and make-up.

A new preparatioo, called Retin-A, has served to blur further the distinction between a prescription drug and cosmetic creams. It was developed in the US by Johnson & Johnson as a treatment for acne, but is now being heralded as an anti-ageing cream. In both the US and the European Community, Retin-A has been categorised as a prescription only drug.

Cilag, a UK subsidiary of Johnson & Johnson, is planning to ask the UK Government to extend the use of the preparation to cover two skin complaints caused by high exposure to ultra-violet radiation. Kenneth Watters, medical director of Cilag, believes that Retin-A needs to be prescribed following medical diagnosis to ensure that the skin damage does not represent an early form of cancer.

Retin-A is a synthetic analogue of vitamin A, specially developed so that it can be absorbed through the skin. With that in mind, Greaves believes that questions should be asked about cosmetic creams that contain vitamin A.

Marion Kelly, director general of the Cosmetic, Toiletry and Perfumery Association in the UK, says that the issue has been exaggerated. "If yon rub cod liver oil cream on your face that will contain vitamin A. In itself vitamin A is not used as a treatment, but cosmetic companies are free to put it in their products, as they are with vitamin E."

The young look that anti-ageing creams try to recapture

She believes that the advertising argument has arisen because there is a far tighter regulatory framework for drug licensing in the US. "In the US, some dandruff shampoos, sunscreens and toothpastes have to be licensed as over-the-counter drugs," she says.

Nevertheless, cosmetics companies are rightly nervous about their prodncts being classified as drugs. Dior says that it took seven years of research and collaborative studies between its laboratories and tha Pasteur Institute to develop Capture.

But it can take up to 13 years to get a new drug on to the market in the UK. The longest stretch is the six to eight year clinical development phase, when a controlled number of patients are treated with the drug.

In the US, the timescales are even more protracted and there is no mutual recognition of drug approvals between countries – every new drug has to be tested in each one.

Even in the EC, where a procedure has been set up for mutual recognition, member states remain reluctant to accept the results of tests in other countries. There is now an effort to set up a central authority for drug approval in Europe.

And if the anti-ageing creams were licensed as drugs, the main outlets for them would be chemist's shops, rather than the up-market department stores where most of the creams are sold today.

A venturesome way to keep a product rolling

Terry Dodsworth explains why ICL hived off a division

When the ICL compnter gronp was shifting its business focus to concentrate on the office systems sector, it hit on the problem of what to do with its parallel processing division.

This part of the UK company had developed a computer, known as DAP (distributed array processor), which was capable of working very rapidly on specific problems. But the technology needed further development; and ICL had decided that the scientific and technical markets at which DAP was aimed were not among its priorities.

So how could ICL both pull out of direct involvement and maintain a financial interest in a technology which had been absorbing funds for the best part of 10 years? The answer, hit upon by David Dace, head of collaborative activities, was to hive it off into a venture capital start-up in which ICL maintained an interest.

The deal left the computer group with 25 per cent of the equity in the hived-off DAP division, renamed Active Memory Technology (AMT). The other 75 per cent and the patents for the AMT machine were handed over to a group of investors put together by Advent, the high technology venture capital organisation, and AMT's management. This group then put up fresh development capital for the reincarnated company – an initial sum of £4.2m followed this year by a further £4.8m.

What persuaded the investment group that the gamble was worth taking? The risks had been well drummed in by the difficulties or failures of several British computer start-ups, from Apricot to Sinclair and Acorn. Indeed, Neil Pearce, investment manager at Advent, says that his initial reaction was "no way" would he support the company. But after several months of looking at the figures he changed his mind.

First, he became convinced that there was a substantial and potentially profitable market for the machine, if it could be produced at the right cost. By the early 1980s, a number of the original versions of the computer had been sold. A variety of software had already been designed and customers had found that the machines were ideal for certain, fairly specific applications.

Unlike some parallel processing computers, which use a small number of powerful microprocessors, the DAP employs a large number of small processors – just over 1,000 in all. Each one performs a similar task simultaneously.

They are exceptionally good, for example, at sorting out data into a screen image. Each processor is given responsibility for small cluster of the dots that create the picture and, when finished, moves on to the next cluster. Other applications where the machine is reckoned to do well are in screen simulation and sorting text.

Second, advances in semicondnctor technology had opened up the prospect of large savings in production costs. Chip prices had tumbled, which meant that specialised machines could be sold at a level that would command a relatively wide market.

As more power was packed on to smaller semiconductors, it became possible to shrink the machine to the size of a small filing cabinet. This could be attached to an off-the-shelf minicomputer or workstation.

DAP has been designed for connection to either Sun workstations or Digital Equipment Vax machines. "This was a case where the technology had caught up with the design. The economics had come right," says Pearce.

Within a year of its launch in October 1986, the group was ready to deliver its first computers. It has sold 19, priced at about £100,000 each, on both sides of the Atlantic, breaking into several of its target markets such as universities, the US defence sector, Government laboratories and high technology industry. It has just launched a second, more powerful £250,000 machine.

"We are running on target," says Geoff Manning, the chairman. "We should be making money by next year or in the final quarter of this year."

The rapidity of AMT's expansion owes a great deal to a decision to develop the company from the start as an Anglo-American organisation.

The close-knit group of venture capitalists, ICL executives and consultants who put the anterprise together believed that the US market, which accounts for more than 50 per cent of world computer sales, was important to its success. They wanted AMT to seem like an American company to US customers, hence its two development centres, one at Reading in Berkshire and the other at Irvine, California.

Manning, a former director of the UK Government's Rutherford Appleton Laboratory, concedes that there are problems in running such a company, but says these are easily outweighed by the advantages.

AMT's US roots increase its acceptability to indigenous customers, who are more attuned to dealing with American start-ups than British ones. Another advantage is that US component suppliers deal more readily with new venture capital outfits than their British counterparts do; and AMT has easier access to semiconductor technology in the US, where it designed its custom-made chips and manufactures its machines.

On the other hand, the group has been able to draw on the UK's strength in software design.

AMT's next challenge is to show that it can achieve enough orders to generate the returns expected by the venture capital group. It has some way to go on this score, given the targets typically set by investment gronps – something like a three to five times gain on their capital over a five-year period.

Nevertheless, Dace is convinced that he made the right decision in seeking a radical approach to the development of ICL's parallel processing technology. ICL has saved itself development cash – the £9m that has been sunk in AMT – maintained an interest that could yield a healthy return and brought the DAP machine to market in a way that would not have been possible within the larger group.

"I have been extremely impressed by the commitment of the management and the speed with which a small organisation can move," he says. "There is no doubt that you can do things like this in a start-up environment better than in a large company."

Max von Sydow and Rudi Davies in *The Tempest*

The Tempest

OLD VIC

We have had a storm of *Tempests* this year, Michael Bryant and Peter Hall bidding adieu with a bitter re-run of Renaissance spectacle at the National, Ninagawa's Japanese Prospero conjuring a Noh floor show in the South Pacific, and John Wood throwing a post-Modernist party like some ageless Michael Tippett at Stratford-upon-Avon.

It is a tribute to this play's inexhaustible power and beauty that Jonathan Miller's chaste colonial version at the Old Vic comes across as the freshest interpretation of the lot, though it yields in excitement quota to the RSC's.

Miller's Prospero, Max von Sydow, seems a bit tongue-tied early on, relating history with halting indecision to the quiveringly neurasthenic Miranda of Rudi Davies. But he gathers strength to propose a magus suspended between the acquired magical practices of Caliban's mother, Sycorax, and the late Renaissance breakthroughs in science and astronomy. Each third thought will palpably not be his grave.

These tensions are reflected in another extraordinary tilted geometric setting by Richard Hudson. Here is a strange and dangerous limbo between Old and New Worlds, Prospero's square walled cell, decorated merely with a white Copernican telescope, nestling awkwardly *against* the cream boulders of a surreal landscape.

As he did at the Mermaid 20 years ago, Miller treats the play as a hierarchical evolutionary racial tract, reflecting both the scholarship of Frances Yates and the more pertinent academic criticism of Leslie Fiedler who long ago itemised the Bermudan, Brazilian, Moorish, Patagonian mixture in Caliban.

Rudolph Walker is a marvellously resentful rapist, whereas the Ariel of Cyril Nri (a superbly tactful and accomplished performance) is a powdered invention who belongs to the populace of Papua New Guinean goddesses. These ladies, in grass skirt bustles and painted faces, turn the visionary masque into a Purcellian recital (music by Carl Davis).

The pursuant hounds are also masked islanders biding their time for the next variation of the imperial theme. After Prospero is released by our applause, Ariel assumes his broken staff and turns threateningly on Caliban. His freedom is another's oppression.

This articulates a deep meaning of *The Tempest* elsewhere expressed in the usurpation, the bungled assassination and the lowlife antics of Trinculo and Stephano. As the first, Alexei Sayle is a bullet-headed stooge whose bemusement hardens into Sconse resentment (and a lovely un-Shakespearean cry of "bastards"); as the second, Peter Bayliss's blotto stupefaction is projected on such a glorious scale as to become endemic to the play as an essay in all sorts of magical intoxication.

Von Sydow comes nowhere near the bravura agitation of John Wood, or the propelling tetchiness of Michael Bryant. This causes little haemorrhages of energy all over the shop, but he speaks the final act speeches with deep musicality. The lords, in gleaming white and pipe-cleaner hose, are beautifully played, directed in unconsciously striking tableaux.

Michael Coveney

Futurist in search of the future

Deanna Petherbridge on the works of C.W.R. Nevinson

NOW being staged at Kettle's Yard Gallery in Cambridge is an absorbing exhibition of the life work of Britain's only fully-fledged Futurist, C.W.R. Nevinson. Absorbing that is, because of the dilemma revealed in the works, rather than through imaginative or informative presentation.

The marks of the artist's stylistic experiments are clear, but curiously, not his colourful personality. Obsessed with self-promotion (probably imbibed from Marinetti, the arch-publicist), Nevinson lived the life of a celebrity, constantly writing and being written about in the popular press.

Behind the scandal and notoriety was a burgeoning persecution complex, which found malicious justification in his autobiography of 1937, "Paint and Prejudice." Both cubism and futurism (in which he had dabbled) are intrinsically suppressive of personality. Indeed, Nevinson's Futurist Manifesto, "Vital English Art," published with Marinetti in 1914, railed against "the old grotesque *idea* of genius" and "the mania for immortality." With this background, Nevinson never managed to break through into a really personal painting style.

"HURRAH for motors! HURRAH for speed! HURRAH for lightning!" proclaimed the manifesto of 1914, in a rather school-boyish version of Marinetti's celebration of mechanistic dynamism (immediately repudiated by Wyndham Lewis and his fellow Vorticists).

"The Arrival" 1913-14, is a very accomplished futurist work, with multiple view points, and dashing use of diagonals and intersecting circles. It was with the onset of war that Nevinson, ambulance driver to the Red Cross and later the RAMC, could put futurism to horrific use: "Our Futurist technique is the only possible medium to express the crudeness, violence and brutality of . . .[the] battlefields of Europe." This was already very far away from Marinetti's glori*fication* of war as "the world's only hygiene."

Works such as "Returning to the Trenches" (in both painted and graphic versions) and "Column on the March" were truly futurist in their expression of movement and mechanistic soldiery, and received popular acclaim in an exhibition in the autumn of 1916. But Nevinson had been deeply distressed by the horrors of war, and after returning to the front as an official war artist to the Department of Information, his style changed.

Nevinson lived the life of a celebrity, constantly writing and being written about in the press

Nevinson's method was to make very minimal sketches, and to work mainly from memory in the studio on returning from the front. He often produced a worked-up drawing and a print as well as the painted version, and they are hung together in this exhibition for comparison. Unfortunately the labels do not supply information about the medium. It is the graphic expression, especially the bitter drypoint line and intense chiaroscuro, which most tellingly communicate the painful subject-matter. The paintings, with their careful build-up of smooth colour in earlier work, or tentative, dull brush strokes in the later war period, do not have the same impact.

In the two versions of "La Mitrailleuse," the famous painting in the Tate which he later repudiated, it is the small chalk drawing which is more expressive; and the pastel "Boesinghe Farm" 1914-15 is as powerful as any of the larger paintings. In a curiously passionate mood, he was able to see the beauty of "Flooded Trench on the Yser" in a drypoint which is reminiscent of a Japanese print.

The intensity of the war graphics continues into the post-war mezzotints of cityscapes and the curious painting of "War Profiteers" which prefigures Edward Burra. The much reproduced lithograph "View from an Aeroplane," with its view of distant landscape from under the wing, harks back to the stylistic devices of Futurism, as did some of the "Making Aircraft" series which he had done as official war artist. Futurism celebrated the "superiority" of aeroplanes, and Marinetti had proposed that a view from above broke "the old logical shackles and the plumb-lines of the old understanding."

In New York, Nevinson applied this amalgam of cubism and "benevolent" futurism to vibrant prints of the city, but his exhibition there was not a success. This seems a misfortune of bad timing, as the city was very soon to be celebrated as the modern technological utopia by American artists such as Charles Sheeler (moving from abstraction to frozen realism). Nevinson's wonderful drypoint, "Looking through Brooklyn Bridge," 1920-22, builds up hazy depth and sharp foreground, within the sustaining abstraction of the suspension wires.

Nevinson's views of London in the late 1920s and 30s are contrived and overworked, nor do his many landscapes rise above the English mud. In a late, rather desperate series before World War II, he relocates guns, bayonets and flags within allegorical compositions, but the rhetoric is shrill and unconvincing. Nevertheless, Nevinson is a significant British artist, in need of re-assessment. The exhibition will tour to Birmingham, Southampton and Bolton City Art Galleries.

Theme and Variations

HIPPODROME, BIRMINGHAM

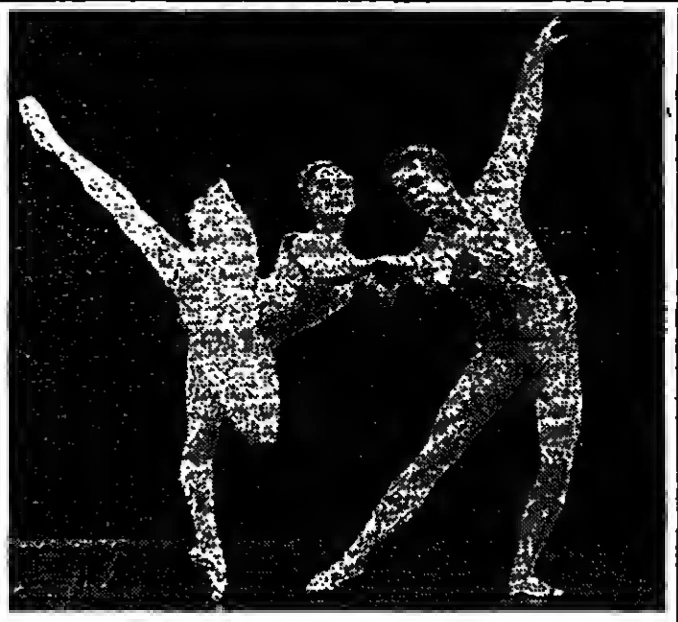
The most honourable of amends has been made to George Balanchine by Sadler's Wells Royal Ballet. After years in which the Royal Ballet's presentations of the Balanchine repertory have been either cursory or inept, SWRB's acquisition of *Theme and Variations* is handsome, alert, dazzling in style. Here is proof, at last, that British dancers can give Balanchinian jewels the right clarity and brilliancy.

Theme and Variations is set to the last movement of Chaikovsky's third orchestral suite. It is a cascade of classic dancing which explores the traditional attitudes of the old ballet, here renewed by Balanchine as homage to, and extension of, the academic manner at its purest. The theme is stated; ballerina and premier danseur become the centre of evolutions that expose every shift of the music's formal patterns, with marvellous insight into the composer's ingenuities of scoring and structure.

It is a noble work, originally made in 1947 for Ballet Theatre, where it was given memorable performance by Alicia Alonso and Igor Youskevich; it later entered the New York City repertory, where most recently Kyra Nichols and Merrill Ashley have been prodigious in it.

On Tuesday night Miyako Yoshida and Petter Jacobsson lived up to the finest traditions of their roles, with clean and excellently schooled support from the corps de ballet. (The staging has been well produced for Sadler's Wells Royal Ballet by that NYCB alumna, Patricia Neary). Peter Farmer has devised an opulent setting of columns, draperies, chandeliers, to set off his frosted, silvery costumes, but the real opulence lies in the dancing of Miss Yoshida, Mr Jacobsson and their companions.

Since she joined SWRB four years ago, Miyako Yoshida has been a quietly enchanting treasure, her every role full and lustrous in performance. With *Theme* she declares herself a ballerina. She brings to it a dignity no less touching for its modesty, and a sweet assurance that labours no technical point but takes us to the bright core of the dance with a delicate authority. She shows us the fire at the heart of this choreographic diamond. Equal praise for Petter Jacobsson, a dancer of rare gifts – not least his grace of style, which results from a period of training in Leningrad. Youskevich, the greatest incumbent of the male role, displayed its fierce difficulties with princely ease. So does Jacobsson, rejoicing, it seems, in the celebrated diagonal of *ronds de jambe*, and showing off the tremendous sequence of double aerial turns as if the orchestral *sforzandi* were the motor of the dance – which, in a choreographic sense, they are. The ballet demands a distinguished bearing, elegant technical resource; these are effortlessly provide by Mr Jacobsson.



Miyako Yoshida and Petter Jacobsson

Theme and Variation needs the expanse of the Hippodrome if its patterns are to flower, and on Tuesday the final Polonaise, one of Balanchine's most loving responses to Chaikovsky's dance forms, poured in splendour over the stage. It's progress was also excellently shaped by Ormsby Wilkins and the SWRB orchestra, joint heroes with the dancers in making this staging so happily true to Balanchine.

The evening also brought another welcome event, in Iain Webb's debut as Petrushka. John Auld's fine version of Fokin's masterpiece encourages serious and imaginative playing from its ensemble, and these were the distinguishing features in Mr Webb's vivid first sketch of the puppet. Here was a vulnerable Petrushka, limbs flailing, powerless feeling suddenly bursting out in an hysterical response to events, anguish colouring every movement. The agonies of the death scene became a last heart-rending cry against fate and told us that the role is Mr Webb's; he is a fine dancer, a fine actor.

Clement Crisp

Berlin Symphony

FESTIVAL HALL

The orchestra from East Berlin played in London on Tuesday, five days after the London concert by the orchestra from the other side of the Berlin Wall. Comparisons are always unhelpful, but in this case the piquancy of the juxtaposition, and of the political situation behind it, makes them (briefly) unavoidable. The Berlin Philharmonic helps define the world's highest standards of orchestral playing; the Berlin Symphony, under its current Principal Conductor Claus Peter Flor, is a thoroughly workmanlike, firmly grounded band of middle rank, with no special features to commend in the corporate tone or ensemble, but also nothing to lament in the way of outstanding weaknesses.

One had expected slightly more, since Mr Flor (who first came to notice in London as a Rafael Kubelik protégé) has already proved himself a young conductor of considerable gifts, which include, a keen rhythmic sense, a clean baton technique, and a way of catching and keeping the attention of his players. The programme for the London concert (which formed part of the Berlin Symphony's current British tour) was "safe" – the Prokofiev Classical Symphony and Dvořák New World, separated by the Saint-Saëns Second Piano Concerto. Perhaps it failed to inspire the musicians beyond the bounds of a matching safe solidity; that was the impression one took from the performances.

The Dvořák was incisively handled, kept briskly forward-moving, with no great tenderness of feeling; Mr Flor appeared not to favour the warm tonal blend achieved by native Czech orchestras, and some of the woodwind lines (notably those of the first clarinet) developed a distinct, and not always pleasing, edge. The Classical Symphony attained neatness but lacked wit. The Saint-Saëns soloist was Cécile Ousset, who delivered the virtuoso thunder and sparklers with her wonted dexterity but with hardly a smile or a solicitously suave grace in the phrasing. It was altogether an efficient but rather dour concert.

Max Loppert

A Matter of Chance

DONMAR WAREHOUSE

There are few opportunities to see a dance play in Britain. On the continent the barriers between acting, dance, mime, acrobatics, and clowning have long withered away: here our drama tends to live and die by the spoken word. *A Matter of Chance* is a dance play, performed by the Kosh, an adaptation by Roger McGough of a Nabokov story, which after this week at the Donmar in Covent Garden continues to tour the country. It is a refreshing and original work.

The omens were ominous as the five performers emerged through dry ice carrying suitcases which they use as props in a heavy-footed dance. But soon a story surfaces and it is a poignant one. Aleksey and Elena, a young married couple, have been separated by the Bolshevik Revolution. Unknown to each other they are both travelling to Paris on the same train, he as a steward, she as a passenger. Will they meet, or will he die of lost love? If the plot is heavy with Russian melancholy, director Michael Merwitzer has given a Weimar look to the piece, especially to Keith Kirkwood as The Man in the Beige Suit, who leers and threatens like a caricature by Grosz, his face painted to a maniacal grimace.

Then there is the constant movement throughout. No sentence is exchanged without the actors somersaulting over each other's backs, perfecting cartwheels, grappling in hand stands, or suspending themselves upside down from the bars which effectively represent the train. At length this constant motion becomes as tiring for the audience as for tha sweating cast, but, as the story reaches its climax, emotion takes over from the physical excess, and a balance is achieved.

Occasionally the performances slip into pantomime but with Sian Williams providing a poignant centrepiece as the love lorn wife, and physically adept contributions from Christian Flint as her husband, Mark Hopkins as his fellow steward, and Angela Bullock as the elderly princess who acts as the catalyst, *A Matter of Chance* is a stimulating theatrical experience.

The actors lose few chances to repeat mesmeric word sequences or to enhance melodramatic gestures but McGough's adaptation is also shot through with punning word play which ensures that the text, and the British tradition, survives in this maelstrom.

Antony Thorncroft

The World of My Dreams

ALMEIDA THEATRE

Early this century the East End of London had a large enough immigrant Jewish population to support a thriving Yiddish theatre industry with its own classic writers and its own international star circuit. Interestingly, upward and outward mobility here would appear to have been been more successful in stamping out the tradition than persecution elsewhere. The Warsaw ghetto famously supported six professional theatres. Only one small and ageing travelling company remains in London today, while Poland boasts a State Yiddish Theatre complete with training facilities for a new generation of actors.

The Ester Rachel Kaminska State Yiddish Theatre returns to London more than 25 years after its last visit as part of a month-long Jewish music festival, bringing with it fragments from a tradition that has had a seminal influence. *The World of My Dreams* is a revue-style compilation, with scenes from the work of Goldfaden and Sholom Aleichem (the latter is most widely known for *Tevye the Milkman*, on which *Fiddler on the Roof* is based) interspersed with joyful folk songs and haunted recollections of the extermination camps.

There is a hint of Weill in Golda Tencer's wonderfully deep-chested rendition of the sentimental classic "My Yiddish Mother," while Juliusz Berger and Szymon Szurmiej plumb the Jewish aptitude for self-parody in a double act taken from *Tevye the Milkman* which looses the honest milkman and cringeing, bewigged and bowler-hatted financier on a parable of stock market misfortune.

The atmosphere of the evening is rough and ready – partly no doubt in a deliberate attempt to keep the atmosphere of the old Yiddish theatre but partly, I suspect, through artistic compromise to technical exigencies. For someone who does not understand the language it was disconcerting to find that the second half of the programme meandered well away from the synopsis handed out at the start, while *one had to take it on trust that* the reedy blare of a siren could, in other circumstances, be a moment charged with the drama of war. However, there were enough Yiddish speakers in the audience to keep pace with the programme and maintain some lively exchange with Szymon Szurmiej's maudlin and defiant master of ceremonies.

Claire Armitstead

ARTS GUIDE

October 7-13

EXHIBITIONS

Paris

Centre Georges Pompidou. The Fifties, taking over Beaubourg for three months from the ground floor upwards. The post-war creative dynamism of the fifties is represented by cars, comics, music, cinema, literature, industrial creation and – on the fifth floor – by visual arts. Closed Tue. Ends Oct 17.

Musée d'Orsay. Cézanne. The Early Years (1859-1872). The 63 paintings and 20 drawings and watercolours, already seen in London and on their way to Washington, reveal a hitherto neglected period of the artist's life. Closed Mondays.

Picasso Museum. The 17th century Hotel Sale, sumptuously restored, provides a fitting home for the world's largest collection of Picasso's work. It comprises 203 paintings, 158 sculptures and more than 3,000 drawings and engravings, 16 collages and 38 pieces of ceramics. 5 Rue Thorgny. Closed Tuesdays.

Grand Palais. Vieira da Silva. After Lisbon, Paris celebrates the 80th birthday of the artist who, while born in Portugal, decided to live and work in France. Some 90 paintings are divided into four groups according to themes: scenographies, memory of *azulejos*, forms and colours as musical partitions, density and transparency of colour. Closed Tue, Wed late closing night. Ends Nov 21.

Martigny

The Gianadda Foundation is showing the second part of treasures on loan from the Sao Paulo Museum. Entitled From Manet to Picasso, it is especially rich in Renoirs, from society portaits and little girls in frothy lace to a fleshy nude. Ends Nov 6.

Berlin

Time Comparison 1988. Thirteen painters, spanning three generations, present the East German art scene in the 1980's. This exhibition concentrates on figurative painting and portraits. Among the artists are Hampel, Heisig, Ebersbach, Tubke and Libuda. Neues Kunstquartier, Gustav-Meyer-Allee 25. Ends Nov 20.

Schleswig

Schleswig Holstein Landsmuseum. 1,000 years of Russian Art. This exhibition celebrates the 1,000th anniversary of the Russian Orthodox Church, taking as its theme the oew alliance between church and state. Following its Moscow première, it has now moved to Schleswig, celebrating the special relations between the German state and Russia. Ends Oct 24.

Vienna

The Austrian National Library. The Arab world in Europe. A marvellous collection of letters and other literary items. Ends October 16.

Secession. Klimt's "Beethoven Frieze" is now back in its rightful and original bome in the beautifully restored Secession. Also on exhibition are works by two young Austrian artists, Gustav Damiscb, the painter and Willi Kopf, the sculptor. Ends November 9.

Albertina. Exhibition of drawings by Alfred Hrdlicka, considered to be one of Austria's most controversial artists. Besides being outspoken in a country which habitually prefers public consensus and runs shy of its more immediate past, Hrdlicka is best appreciated for his sculpture. Ends November 30.

Venice

Palazzo Grassi. The Phoenicians. The fourth major exhibition at Fiat's imposing art centre oo the Grand Canal attempts to give a complete picture of this extraordinary people, who dominated trade in the Mediterranean for over 1,000 years before Carthage was destroyed by the Romans in 146 BC. The exhibition has been given a highly theatrical presentation by the architect Gae Aulenti and the 750-page catalogue, published by Bompiani, is excelleot. Until Nov 6.

Ferrara

Palazzo dei Diamanti. Treasures from the Ghetto. A remarkable collection of precious objects in gold, silvers and textiles, connected with the Jewish religion. Many of the objects on show were requisitioned by Hitler and were to have formed the basis of his unrealised Museum of an Extinct Race. Until January 15.

Rome

Galleria Giulia (via giulia 148). Hap Griesbaber (1909-1981). An impressive series of coloured wood engravings organised jointly by the Auslandsbeziehungen Institute in Stuttgart and the Goethe Institute in Rome. Until October 19.

Bologna

Pinacoteca Nazionale and Museo Archeologico. Guido Reni (1575-1642). A splendid collection by the Bolognese mannerist painter, the first to bring the concept of physical beauty into sacred art. Until Dec 8.

New York

Metropolitan Museum of Art. An exhibition of architecture on paper covers four centuries of drawings including works by Frank Lloyd Wright, Louis Comfort Tiffany and Arata Isozaki, as well as the west façade of the Alhambra that dates back to 1580. Ends Jan 8.

Museum of Modern Art. Almost 100 black-and-white prints illustrate Matisse's influence during a 50-year printmaking career that included lithography, etching and linoleum cut. Ends Nov 6.

Chicago

Art Institute. The first major retrospective in 30 years of Paul Gauguin includes more than 230 objects and major paintings from all the periods of his exotic and far-flung life. Ends Dec 11.

Tokyo

Tokyo National Museum. Japanese Archaeology: History and Achievements. Over 300 exhibits tracing the history of archaeology in Japan and the finds which have overthrown many cherished theories about Japanese civilisation. Closed Mondays.

National Museum of Western Art. Japonisme. A major exhibition, seen earlier this year at the Grand Palais in Paris, which explores the influence of Japan on the art of the West in the late 19th century. The exhibits include representation of Japanese objects and scenes from Japanese life. Closed Mondays.

National Museum of Modern Art. Genealogy of Realism. Oil paintings from the Meiji Era (1868-1912). Japan's first western-style art school opened in 1876 and artists soon grouped into followers of the Barbizon School, with its sombre devotion to peasant life and use of the more liberated palette of Impressionism. Both strands are well represented in this comprehensive exhibition. Closed Mondays.

SALEROOM

Tiles fetch £133,000

The practice of decorating Ottoman buildings with ceramic roundels, each bearing the name of a religious figure, starting with Allah and Muhammad, developed in the mid 16th century. Sets of such Iznik tiles rarely appear on the market but Sotheby's offered eight yesterday, in cobalt blue, made around 1565, and they attracted a price of £133,000 from a Middle Eastern private collector, who paid twice the estimate.

Sales of Islamic works of art had been in the doldrums but this week's auctions suggest a renewal of interest. An Ottoman gold inlaid hardstone bowl, less than five inches in diameter, made in the first half of the 16th century, was bought by B. Mohamed, the London dealer, for £103,400, also double its estimate. The same dealer paid £39,600, as against a £2,000 top estimate, for a Turkman steel chanfron.

A 14th century bronze candlestick from south east Anatolia was on target at £55,000, and a rare intact Egyptian phial, five inches high, and made of marvered glass in the 13th century, realised £17,600, well below target. The morning session totalled £728,249, with 17 per cent unsold.

The Aussie Earl of Stradbroke is £1.2m. richer, (before the Prudential takes off its charges), following the three day sale of the contents of his long demolished Suffolk seat, Old Henham Hall. Books sold yesterday and Traylen, the Guildford dealer, paid £8,800 for a copy of William Curtis's "Flora Londinensis," published in the late 18th century with 432 hand coloured plates.

Sotheby's was also offering modern British pictures. The morning brought in £294,789, with a high 20 per cent unsold. A holiday scene near Hayle in Cornwall by Samuel Lamorna Birch was just above estimate at £19,800 while the dealer David Messum paid £15,400, double the estimate, for a small Laura Knight, "On the Beach."

Antony Thorncroft

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The future of universities

MR KENNETH Baker, the UK Education secretary, muffed his first attempt at reforming universities. The 1988 Education Reform Act is widely regarded as relying excessively on bureaucratic funding mechanisms. It will do little, if anything, to increase choice or efficiency in the sector. Mr Baker, aware of the flaws in his legislation, is now striving to formulate a strategy for higher education that does not directly contradict the philosophy of the Thatcher Government.

Thus instead of seeking ways to impose further financial controls from the centre, ministers are now arguing that universities should be given direct incentives to respond to the needs of students. One touted mechanism would be to reduce block grants and oblige institutions to charge higher tuition fees. Universities would then be forced to compete for the "custom" of home students just as they now compete for fee-paying foreign students. Ministers are also assessing various schemes for replacing student maintenance grants by loans. In some formulations, the loans would be required to cover a portion of fees as well as maintenance.

Means to an end

The Government's belated willingness to consider radical changes in the funding and organisation of universities is to be welcomed. But a Mark 2 reform of higher education is unlikely to be more successful than the policies already enacted unless ministers first clarify their objectives. The wrong structure of fees and loans could wreak enormous damage. Such innovations are not to be regarded as desirable in themselves. They are a means to an end, which is the widening of access to higher education.

By the standards of most developed countries, Britain has an elitist and expensive system of higher education. The proportion of young people who enter universities and polytechnics is much lower than elsewhere. This partly reflects the severity of the secondary school examination system: Britain could not expand higher education to US levels because most of the US students entering colleges could not pass British A levels. But the elitism also reflects the fact that those who do qualify for a university education are very heavily subsidised: no other country meets the costs of both tuition and maintenance.

The cost structure of higher education and the severity of the entrance requirements are mutually reinforcing. There has been no incentive to make sixth form education accessible to the bulk of the population because, given the expense of the grant system, no post-war government could have afforded the cost of the ensuing expansion of the universities. It has remained the preserve of a relatively small number of bright middle class children.

Extended subsidy

The partial replacement of maintenance grants by loans is desirable because a given public subsidy could then be extended to more students, as it is in other countries. But the repayment mechanism must be fairly painless – otherwise children from poorer backgrounds will be deterred and access would not be improved. The simplest option would be to recoup loan expenditure by requiring graduates to pay slightly higher than average national insurance contributions once they begin work.

The point of requiring universities to charge higher fees should not be to impose *additional* burdens on students. The cost of the fees should be matched by educational "vouchers" paid direct to individual students. The vouchers would be a substitute for the grants presently doled out by funding councils. Higher fees without offsetting vouchers, which is what presently seems on offer, would make a nonsense of attempts to widen access. If the impact of a few special scholarships is excluded, the effect would be to reserve the best universities for the children of the rich – hardly a policy for widening access.

Mr Baker should use vouchers to give all students the purchasing power to make producer-dominated universities responsive to consumer needs. He should use loans to lessen the unit cost of higher education and thus widen access. He should bolster both by reforming sixth form education. A broad GCSE style qualification that a large proportion of 18-year-olds can pass is required.

Accountability in Yugoslavia

IT IS NOT hard to see why the Yugoslav state, originally built on a fragile compromise, is now being shaken to its foundations by a surging wave of protest.

Three sources of discontent have merged to create a climate of violence and fear. One is the fall in living standards that followed the imposition in May, under International Monetary Fund (IMF) guidance, of a draconian austerity plan, and the progressive liberalisation of prices, imports and hard currency supply.

Another is the resurgence of nationalism in Serbia. Serbian leaders want greater control over the autonomous provinces of Kosovo and Vojvodina, on the grounds that Kosovo's ethnic Albanian majority is persecuting local Serbs. Third, there is a sense of bitterness against old-guard politicians throughout the country, perceived as corrupt and incompetent.

Mr Slobodan Milosevic, the Serbian Communist party leader, has exploited all three grievances. Over the past three months, perhaps 2m people have attended rallies to back his bid for a more centralised Serbia. Last week, protests by his admirers toppled the leadership of Vojvodina. Though his strength will be tested at a key meeting of the Communist party's central committee on Monday, he has emerged as the first serious contender for the effective leadership of Yugoslavia since the death eight years ago of Josip Broz Tito.

Understandably, non-Serbs find this acutely alarming. They fear a decisive shift in the country's internal balance of power in favour of the most populous republic. The lifelong efforts of Marshal Tito to avoid Serbian domination of Yugoslavia would at least partially be reversed. Yet many who resent the Serbian leader's strident nationalism would agree with his assertion that the Yugoslav system is in desperate need of a fundamental overhaul.

The debt problems which forced the Belgrade Government to call in the IMF did not simply arise through bad luck. They reflected flaws in the political structure. On paper this structure might seem an ingenious way of accommodating within one state a patchwork of diverse peoples. Indeed the combination of political devolution (with wide-ranging powers vested in towns as well as republics) and economic decentralisation (under which every enterprise is an independent, worker-managed co-operative) looks ideal.

Practice has proved otherwise. More and more Yugoslavs have recognised the absence of one essential ingredient: accountability. Because Yugoslavia is a one-party state, there is no satisfactory procedure for calling incompetent politicians, and failed recipes, to order. Because there is no bankruptcy, there are no automatic penalties for financial incompetence.

Those problems exist throughout the Communist world. What makes Yugoslavia unique is that because of its decentralised structure, the ill-effects of irresponsibly exercised power are endlessly reproduced, at local as well as national level. If there is one thing worse than a central bureaucracy, churning out unwieldy plans and imposing them on a reluctant economy, it is a myriad of provincial and municipal power-brokers with deeply vested interests in keeping alive their local enterprises, however unsuccessful.

Divided as they are over ethnic questions, there is agreement between Mr Milosevic, many of the leaders of Croatia, and all the leaders of Slovenia, on the need for root-and-branch economic reform. All concur on the need to move towards a market economy, and to make enterprises genuinely independent by letting them raise equity capital.

The hope must be that Yugoslavia's leaders will not lose sight of these goals in the maelstrom of ethnic conflict. Much will depend on whether the charisma of Mr Milosevic is channelled in the right direction: guiding his supporters through the pain of economic upheaval, reining in their extremism, and avoiding bloodshed in Kosovo.

John Gapper on why the UK Government intends to force its prescription on the nurses

A cure for the 1990s

In April 1922, the women nurses of the Radcliffe-on-Trent mental hospital in Nottinghamshire went on strike over a move to cut their wages and increase their hours of work. They took the male nurses aback by their militancy.

One nurse, Herbert Hough, later described the scene as a policeman tried to break into a barricaded ward*. "(He) just got his head nicely in a good position and Louie Burley, the charge nurse . . . gave him an uppercut and by remarkable timing, she knocked him out."

As the nurses' pay dispute with the British Government comes to a head this autumn, their long tradition of unrest is generally unknown to the public. For most people, the figure who symbolises best the 487,000 "angels" of the country's National Health Service nursing staff remains not Louie Burley, but Florence Nightingale.

Nightingale, who took charge of nursing in the British military hospitals in Turkey during the Crimean War, is generally credited with founding trained nursing as a career for women. The picture of her both nursing patients and controlling hospital wards lingers to this day.

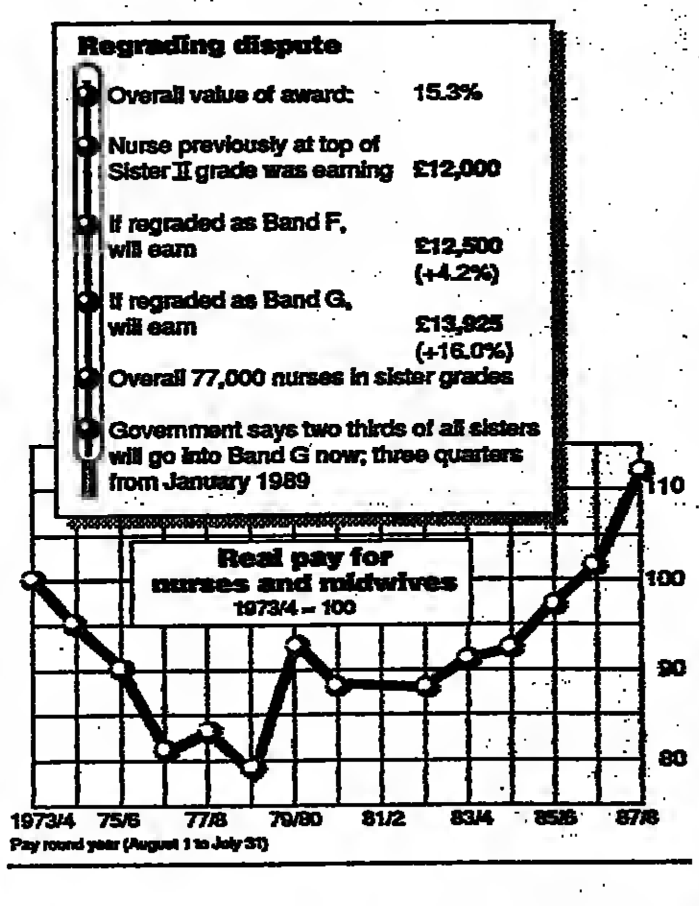
With it comes a public perception of nurses as a group of skilled workers with professional expertise distinct from that of doctors. The wish to see them well rewarded has helped nurses to become the best treated of all public sector pay groups under Mrs Thatcher's government.

The mixture of public sympathy and nurses' willingness to protest has proved a heady cocktail this year. When the Government said on Tuesday night it would impose a disputed 15.3 per cent pay award, it was making a calculated gamble that it could ignore the inevitable uproar.

Mr Kenneth Clarke, the new Health Secretary, owes his job in part to the effects of that cocktail. The problems of Mr John Moore, formerly Health and Social Security Secretary, over nurses' pay at the start of this year damaged his chances of retaining the more glamorous health portfolio when the department was split.

As Mr Clarke rises to address the Conservative Party conference in Brighton today, there are good reasons why the image of Louie Burley should be as strong in his mind as that of Florence Nightingale. A well-timed uppercut from the nursing unions could still cause him the sort of problems that beset Mr Moore.

Yet Mr Clarke has signalled his determination to press ahead swiftly with changes to the pay, training and employment of nurses that could have profound implications for the role of nurses in the 1990s. His problems over the pay award symbolise these wider issues.



The pay award problems may seem sizeable enough in themselves. Since last April, when the Government accepted the nursing staff pay review body's recommended new clinical grading structure – at an estimated cost of £803m – a series of staff discontents and funding difficulties have emerged.

The first set of problems has been over individual re-gradings, which are supposed to be in place by the end of this month. Nurses' expectations were high after the initial publicity, and there has been anger among those who have found their own pay rises may be far below 15 per cent.

The issue has come to a head over the twin issues of responsibility for wards among sisters, and the supervision of nursing auxiliaries. Sisters who have shared control of wards have been angered by the Government's insistence that only one ward sister can be placed in a higher grading, "Band G". The others – some 7,000 sisters, according to the Government – will be placed in the lower Band F.

Lower down the scale, some nursing auxiliaries will be placed on the lowest Band A rather than Band B, depending on the extent to which they are considered to be under supervision.

These issues remain unresolved. Mr Clarke has now said that the award will be implemented despite the protests of unions, and has refused their final appeals to meet him in Brighton this week, or to submit the issue to binding arbitration. "The time for talking is over," he said on Tuesday.

The second set of problems facing him has been over the actual cost of the re-grading exercise. Many of the regional health authorities in charge of implementing the award locally have found that the cost is higher than the estimated 15.3 per cent funding already allocated.

An example is the South Western Regional Health Authority, which was allocated a total of £37m this year to pay increases to its 23,000 nursing staff. Re-gradings by its 11 districts have in practice produced a total pay award of £51m, or 19.5 per cent.

The dispute over ward sisters' gradings has enormous symbolism for the wider changes in the number, status and role of trained nurses in the next decade. In some ways, the Government is trying to use the regrading as the first step towards changing the way nurses work.

On six joint visits to hospitals both union and management negotiators found a number of wards where the responsibility was shared between two sisters. The response of the management side – and the Government – has been to insist that the patterns of work should change.

To bring this about, sisters who share responsibility are both to be put at Band F until January, when one will be selected to be promoted to overall responsibility for the ward and placed on Band G. The Government uses the analogy of a ship's captain, and insists there can be only one.

On the face of it, it seems curious that the Government is willing to risk the success of the pay award over 7,000 nurses. But against the background of what it is trying to do to cope with changes in the labour market over the next decade, it becomes more understandable.

The essential problem is that it faces acute – and possibly critical – staff shortages in the NHS in the 1990s unless it can change the recruitment patterns and work of nurses. The sharp fall in the number of school leavers means it has little chance of attracting enough nurses by traditional means.

The Government's emerging approach is to "widen the entry gate" into nursing – take on more academically unqualified people – and change the role of senior nurses. Under this vision, the highly qualified "nurse practitioner" would act as supervisor overseeing a growing pool of "nurse helpers."

The policy has considerable attractions for the Royal College of Nursing, the largest nursing union, which has consistently pressed for nurses to be given the status of practitioners. It carries echoes of Florence Nightingale's authority for hospital budgets in the Crimean War.

Indeed, Mr Moore won himself a standing ovation at the RCN's annual conference earlier this year when he announced the Government's broad acceptance of the reform of nurse education, giving all nurses three years' training and ending the practice of using student nurses as "pairs of hands."

But behind the surface agreement lie tensions over the numbers and role of this new generation of ward captains. The RCN and the nurses' professional body, the United Kingdom Central Council for Nursing, are both insistent that they should remain active nurses – like Nightingale. And the RCN argues that the number of registered nurses should not be allowed to shrink.

However, the health department believes that recruitment pressures will lead to a big drop in the number of registered nurses. The Government's insistence on a single ward sister in charge can thus be seen as preparation for an era in which qualified nurses act more as supervisors than practitioners.

Mr Clarke's problems with the Louie Burley tradition of nursing unions will not be over when he finishes his speech today. The Royal College of Midwives is also furious at the way the regrading exercise will affect its members. Next week it will announce the result of a ballot that is expected to change its policy of not taking industrial action.

But, such shorter-term disputes aside, the health service also faces years of tension over the Florence Nightingale tradition. Disagreements over whether registered nurses remain active carers for patients, rather than becoming supervisors of nurse helpers, are likely grow over the next decade as the shape of Britain's nursing workforce inevitably alters.

* *Working for Health – the history of Cohse, by Mick Carpenter, Lawrence & Wishart, 1988.*

BOOK REVIEW

A creature of times past

INSIDE THE THINK TANK
By Tessa Blackstone and William Plowden
William Heinemann, £14.95

Is the Cabinet wall informed? Do ministers get the sort of independent advice which enables them to make decisions on issues that are not immediately connected with their departments?

Edward Heath did not think so. Some of his predecessors had also recognised that there was a "hole in the centre". In 1971, he set up the Central Policy Review Staff – the Think Tank as it became known – to fill the hole.

The Think Tank was a group of 20 or so people, mostly young, drawn from the Civil Service, the academic world and business. The idea was that, without party political affiliations, they would be able to give the sort of policy advice that would help ministers to rise above their departmental preoccupations.

Backed by research carried out by and for the Think Tank, the Cabinet would at least have the benefit of knowledge that might give them a longer term perspective on policy.

During most of its 12 years, the Think Tank achieved a surprisingly high profile for a back-room body (in fact, it worked from the attic rooms of the Cabinet Office). Some of its reports, which were bound in red to distinguish them from more timid-coloured Government publications, even gained a certain notoriety.

The report into the future of the power plant industry in the UK, for instance, which advocated mergers between the manufacturers, was seized on by foreign competitors as evidence of the industry's weaknesses.

In 1982, the recommendations of its report into options for public spending cuts severely embarrassed Mrs Thatcher, since it was construed as a dismemberment of the welfare state. The report was never published.

It was this event, rather than an earlier review of Britain's overseas representation (which met with total vilification from the friends of the Foreign Office) that led finally to Mrs Thatcher's abolition of the Think Tank, say Tessa Blackstone and William Plowden.

In retrospect, the Think Tank can be seen as very much a creature of the 1970s. The first three birthdays were celebrated at London's Mirabelle restaurant; the lion's terrace at Regent's Park Zoo was the venue for later get-togethers, to which ex-members were always invited. (The average length of stay in the Think Tank was only about two years.) It all had an academic ring about it.

Politically, that period now seems distant. Industrial planning and reform of government machinery were still on the agenda.

The first few years of Thatcherism demolished those ideas. Sir Robin Ibbs, who headed the Think Tank from 1980 to 1982, is shown in the book to have adapted its style and workings to Mrs Thatcher's persuasions, particularly in the industrial sphere. His successor, John Sparrow, was less successful.

Mrs Thatcher wanted ideas and she wanted facts and arguments about particular problems with which to counter the views of civil servants. So the authors say. But she apparently got that from her Policy Unit. The reports which the Think Tank delivered at that time were, she said: ". . . guffy stuff, like PhD theses. We could do that kind of thing ourselves."

The practice of politics was changing more radically than the Think Tank had realised. Some commentators say that Mrs Thatcher was more in the business of dominating her Cabinet than improving the quality of collective decision-making.

On reform of the government machinery, her interest has been directed at making the implementation of policy more cost-effective.

Sir Robin Ibbs, until recently head of her Efficiency Unit, took the process much further with the proposals, now being put into effect, for setting up agencies. The full import of this move will only become apparent if the efforts to break out of the traditional civil service structure succeed. But, as in many other areas, there will be no going back on the changes launched by Mrs Thatcher.

The authors, both part of the Think Tank in the 1970s, began their book before Mrs Thatcher abolished their subject. What might have been a constructive critique has turned in parts into a wake, sandwiched inside the case for a Think Tank revival.

It is a good read, although the 30-year rule on the disclosure of information prevented it from being an inside story that might have added substantially to contemporary history.

However worthwhile the work that the Think Tank did, it was inevitably at the mercy of the political process. Thus the report on the future of the British car industry, which recommended that the Government allow Chrysler to close, was published on the same day that the Wilson government announced its rescue package for the company. As the authors say, that "made a nonsense of the report's recommendations".

Hazel Duffy

OBSERVER

Serious work on Thatcher

■ Professor Leslie Hannah is giving up the directorship of Business History Unit at the London School of Economics to write what could be the most interesting book so far about the Thatcher period. Although it does not yet have a title or even a thesis, Hannah says that it will be about "How has Mrs Thatcher done it?" Basically, he expects that it will be quite pro-the Prime Minister, though there will be negative factors: such as education.

Hannah, 42, was one of the first of the British corporate historians and produced The Rise of the Corporate Economy in 1976. He also wrote Electricity before Nationalisation, which is presumably now being studied by Cecil Parkinson, the Energy Secretary.

In the Thatcher book he says that he will not be simply making statistical comparisons either with other countries or with Britain's past performance. "No-one believes," he claims, perhaps with some exaggeration, "that a few years' growth makes all that much difference. The fact is that Britain had half or less than half the growth of the now OECD countries for 100 years. The interesting questions are: has there been a change and, if so, why?" On the question of whether there has been a cultural change, he says that in terms of graduates going into industry or business the answer is "yes". But it started in the days of Harold Wilson and Tony Benn and cannot be attributed directly to Thatcher.

Hannah will spend 12 months writing the book at the London Business School. He will be succeeded at the LSE by Dr Terry Gourvish, currently Dean of Economic and Social Studies at the University of East Anglia. Business history, it seems, has become something of a growth industry. Several other units are being set up elsewhere.

Poot retires

■ Anton Poot will depart as chairman and managing director of Philips UK at the end of next month, having reached the statutory retirement age of 60. Poot has been with Philips in various parts of the world for his entire working life, and will now settle in Surrey.

He is, in fact, almost an honorary Englishman. In the 1950s he worked in South Africa and the old British colonies of Rhodesia and Nyasaland. In Britain he is a member of the CBI Council, Fellow of the Royal Society of Arts and Vice President of the Royal Television Society. A few weeks ago he became a director of the London Symphony Orchestra, and that is the sort of post that could now be showered upon him. He could also be of use, in a non-executive capacity, to companies interested in Europe and 1992.

He will be succeeded as managing director at Philips UK by C A M Busch, currently the finance director and vice chairman.

G for what?

■ The game of musical chairs at the Central Electricity Generating Board appears to have left only one senior man without a secure seat. Derek Davies, the board member in charge of technical planning and research, is notably absent from the list of senior executives of the three private companies which will succeed the CEGB.

Davies has been given a job, though one which ministers are anxious not to talk about just now. He will be in charge of new Common Services Company, which will group all the parts of the CEGB left over after the carve-up, including the CEGB's excellent but embarrassingly large R&D operation at Barnwood, Gloucestershire. Its computer and other central services cannot be sliced in two. It remains hard to see how two competing generating companies (Big G and Little G) can share common services with the national grid company, which will be owned by their main customers. However, Davies will have a year or two to sort that out.

Otherwise, there are few surprises. Senior executives, better known for competence than colour, have been chosen in a Dutch auction between John Baker, chief executive of Big G, and Ed Wallis, head of Little G. Wallis picked a younger team, all, including himself in their 40s. One reason the carve up has been accomplished without screams is that everybody expects a healthy jump in salaries. Meanwhile, the Civil Service's best brains are working on what Big and Little G will be called.

"It's the prospect of being able to vote the Coal Board out of office that excites me."

Still squeezed

■ First the good news: the Central Line on the London Underground is to undergo a £720m modernisation plan, as announced by Paul Channon, the Transport Secretary, at the Tory Party Conference on Tuesday. There will be a modern automatic signalling system, together with 85 new trains and a general wash and brush up. The present trains are 30 years old and the signalling system was last updated in 1940.

Now the less good news: it will be eight years before the modernisation is completed and three years before the first of the new trains enters even limited passenger trials. The scheme will do nothing to reduce overcrowding. While the Transport Department says that capacity will be increased by 16 per cent, London Underground's own Plan for Action, published three weeks ago, estimates that peak demand will grow by 20 per cent by 1997.

London Underground is seeking permission to build several new lines to take the strain off the existing network, and presented its proposals to the Transport Secretary in the summer. Channon, however, has postponed a decision; the cost would make the Central Line improvements look like petty cash.

Musique concrète

■ Arts sponsorship is spreading to the third world and the communist bloc. According to the Times of India, the visit of the Kirov Ballet of Leningrad to Bombay is sponsored by the Shree Vigvijay Cement Company.

ECONOMIC VIEWPOINT

Europe need not be corporatist

By Samuel Brittan

Mrs Thatcher's Bruges speech on the future of the European Community deserved neither the slating it received from the Euro-lobby nor the rapture from the wavers of the Union flag.

Her written text at least was not anti-European. The Prime Minister dwelt fondly on Britain's historical and cultural involvement with the Continent. She also gave a very necessary warning about the Community tendency to overregulate and to distrust competitive markets. "We have not successfully rolled back the frontiers of the state in Britain, only to see them reimposed at a European level. . ." Amen to that.

But she spoiled the argument by finishing the sentence ". . . with a European super state exercising a new dominance from Brussels." She makes the same mistake as that of her arch opponent, the Commission President Jacques Delors, in assuming that a European union must be corporatist.

These are different issues. Both corporatism and competitive market policies can be pursued in a insular setting or under some degree of European union. (Let us not incidentally get bogged down in a battle over what that union should be called. A federal United States of Europe has scant prospect of existing in the foreseeable future, however much Mr Delors may wish it otherwise.)

The Prime Minister's mistake is at

'We have not rolled back the frontiers of the state in Britain only to see them reimposed at a European level'

two different levels — the tactical-political and the fundamental. At the first level, Mrs Thatcher would be in a much better position to oppose harmonisation for harmonisation's sake, or provisions for union seats on company boards, if she ware seen to accept without reservation and even with some cheerfulness the idea of a Europe without frontiers. She would stand a much better chance of leading the movement towards European unity in a free market direction if she were in its front line — where her best friends would hardly place her now.

Since Harold Macmillan, successive British governments have been missing the European bus and then been surprised that they have so little influence on its destination.

General De Gaulle, on the other hand, whom the present British Prime Minister seeks to emulate, surprised friend and foe alike by accepting the full obligations of the EEC long before the Rome Treaty required him to do.

The bigger mistaka is to write off all supranational elements as hopelessly collectivist. The issue is less simple. The Brussels Commission normally presses for a lower degree of protection and subsidy than its member governments desire. The trouble is that when it is defeated, it still prefers a Euro solution, however bad, to returning policy to member governments — as would be desirable, for instance in agriculture.

Where the Commission has actual powers, as in the case of competition and industrial policy, they are exercised to promote market forces and cut back the sums that governments can put into supporting domestic industries. Lord Young has explained how it has limited the size of the parting handshake he can provide for Rover and has vowed to use EEC law to impose similar limits on aid to the French motor industry.

But the issue goes deeper. Ona aspect of Friedrich Hayek's Constitution of Liberty, so admired by Mrs Thatcher, is the need for constitutional constraints aven on elected governments. That need has been restated in an Institute of Economic Affairs Paper, The Invisible Hand in Politics and Economics, by Norman Barry *(IEA; £6.50)*.

The European Community is one of the few "rule of law" constraints on the actions of a government elected with a temporary plurality. Not evsn Mrs Thatcher will last for ever; and a time will come when her present followers will welcome such constraints, whether internal or external.

Meanwhile in her Bruges speech, Mrs Thatcher suggested four guiding principles for the Community:

- Willing and active co-operation between sovereign states;
- Tackle problems practically;
- Promote policies which remove barriers and encourage enterprise;
- Europe should not be protectionist.

One could spill a lot of ink debating the first principle: *Europe des Patries* versus supranationalism. But it would be pointless. Mrs Thatcher's own second point about a practical approach suggests that we do not become bogged down in arguments about the essence of the Community but try to improve it.

The internal market for 1992 was itself partly the result of a British initiative designed to shift attention away from proposals for political union. The Single European Act of 1985 provides for the establishment of this market by qualified majority voting within the Council of Ministers. There is much argument about which national laws are relevant for the purpose; and the Council would not be so foolish as to ride roughshod over any major member'a national interest.

The Prime Minister's warning against protection is more important, despite her own mixed record on the issue. Its timeliness is highlighted by the Community's abuse of anti-dumping procedures to exclude a growing range of Japanese, US and Third World products.

The least surprising omission from Mrs Thatcher's speech, despite her emphasis on the already practical, was any mention whatever of tha European Monetary System. Maybe she is being misled into hoping that the EMS will collapse when capital controls are removed — ahead of the full internal market — in 1990.

She would then be making just as great an error as those who supposed that the EMS itself would never start or the EEC before it. One extremely highly placed French authority, recently reminded me that France had already gone nearly all the way to freeing currency movements across the frontier and that if there were any insurmountable strains, they would be showing already.

* * *

There are two aspects of a unified market in 1992 capable of appealing to popular imagination. There is much argument about whether either is required by existing obligations. But if they were both accepted they would give a new wind to the Community.

One is the removal of customs posts, so that the physical barriers which have traditionally divided one European state from another can be seen to have been removed.

The second is dispensing with the services of the money changers, so that the same currency can be used on a journey from London to Munich as from London to Manchester. This cannot happen by 1992, but can at least be an aim.

On neither issue has the British Government shown imagination. The Chancellor is right to oppose the Commission's proposals to harmonise value added tax within stated bands. He argues that (as in the case of US sales taxes) whatever harmonisation is required can be left to market forces and cross-border shopping.

British Vat rates are, however, comparatively low. On drink and tobacco where British rates are high, we are told that either frontier controls have to remain or that rates have to be harmonised upwards.

Perhaps realising that its fiscal case is not watertight, the British Governmsnt also advances anti-terrorist arguments for keeping border controls. But no one has explained why movements within the EEC at large need to be more strictly controlled than movements between the Republic of Ireland and the UK at present. Nor why collaboration betwaen national security forces needs to be operated at tha frontier.

As for an eventual European currency: there is no necessary connection with full political federalism. The existing EMS is largely run by central banks and finance ministries; and a Gaullist *Europe des Patries* could still benefit from a single currency, just as sovereign states before World War I gained from the de facto international currency provided by the gold standard.

It is true that automatic fiscal transfers cushion some economic fluctuations within existing federations. But such transfers are not a precondition of a common currency. Even if they cannot be obtained, it is difficult to see what an individual government gains from retaining the right to devalue. If it is really true that we cannot spend ourselves into prosperity, as Lord Callaghan has already told us, and the long-term effects of monetary policy are on the price level, then there would be no gain from retaining a national currency, so long as the European version is run on a sound money basis.

The present goal of the EMS is to make parity changes rarer and rarer. Once they have become a thing of the past, currencies will become increasingly accepted across frontiers as they already are in border areas. Eventually tha difference between one European curreocy and another could approximate to the difference between English and Scottish pound notes. The national names can be changed when public opinion is ready.

More important will be the need for a European central banking institution to regulate the issue of the linked or unified currencies. The Bundesbank has proposals designed to ensure that any new European unit is as strictly controlled as the German mark and by an authority as independent as the Bundesbank. This would be the British policy if Mrs Thatcher really were a Thatcherite.

LOMBARD

Identity crisis in Canada

By David Owen

"What is resented in Canada about annexation to the US is not annexation itself, but the feeling that Canada would disappear into a larger entity without having anything of real distinctiveness to contribute to that entity." (Northrop Frye)

The recent "Vision of Europe" speech by Mrs Margaret Thatcher, the British Prime Minister, was received with interest in Canada, another country grappling with the consequences of closer economic ties with its neighbours.

The theme is a mature one, having exercised the minds and passions of Canadians for over 100 years. It is also topical. The still unratified US-Canada free trade agreement is expected to make the question of increased North American economic integration the paramount issue in the forthcoming general election campaign.

The positions already staked out by the respective party leaders suggest that Canadians will be asked to make a choice between material well-being and nationalism. Virtually nobody disputes that Prime Minister Brian Mulroney's trade deal will make Canada more prosperous. The quid pro quo, the opposition contends, is that the country's sovereignty will be impugned to an unacceptable degree and — as argued by Mr Ed Broadbent's New Democratic Party — that the rich will benefit at the expense of the poor.

It is hard to predict which of these two perennially seductive appeals to the electorate — material well-being and nationalism — will hold sway.

Viewed from this perspective, Mrs Thatcher's Bruges speech appears to be a pre-emptive attempt to hitch both potent forces to the Conservative bandwagon. In her emphasis on deregulation and the demolition of barriers as the route to prosperity, she took several leaves out of fellow Conservative Mr Mulroney's free trade book. But in the weight which she accorded to sovereign nationhood and the importance of preserving national customs, traditions and identities, she was distinctly reminiscent of Mr Broadbent and Mr John Turner, the Canadian Liberal leader.

Mrs Thatcher must, after all, be aware that the economic integration of Europe will feature far more prominently than at present for the average voter when her party seeks a fourth consecutive term in the early 1990s. By that time nationalism may have emerged as a fruitful vein for the opposition to tap — particularly if a few more corner-stones of corporate Britain succumb Rowntree-style to foreign takeover.

Ultimately, however, nationalism is unlikely to prove as powerful an argument against integration in Europe as it is in Canada. Language barriers and other cultural differences are deeply entrenched in Britain, France and West Germany.

With the exception of Quebec and the continent's surviving native groups, distinctions are far less clear-cut in North America. To paraphrase Mr Jacques Delors, what divides those in Europe is more important than what divides those in North America.

Moreover, the differences which Canadians typically point to between their country and the US — no capital punishment, better social services and the parliamentary system itself — are legislative rather than cultural. True pan-Canadian cultural distinctions — apart from ice hockey and the Mounties — are much harder to pinpoint.

This chronic Canadian identity crisis (allied to an understandable wariness of a compact with an economy larger by a factor of twelve) could paradoxically make a genuine free market between the two ostensibly similar cohabitants of the North American subcontinent more difficult to achieve than one between the dozen disparate nation states of the EC.

Individual European countries, less unequal in size and comparatively secure in their own national psyche, are likely eventually to conclude that the benefits of forging closer economic links with their neighbours on the whole outweigh the drawbacks. Canadians, by contrast, may cleave obdurately to every last inch of "sovereignty", equating its erosion with the gradual loss of their very identity.

LETTERS

Perils of inflation-proofing

From Mr R.B. Colbran.

Sir, Mr Tomkins (Letters, October 5) asks for my views on the suggestion that all funded pensions should be matched by index-linked stock.

There is an immediate practical difficulty. The amount of index-linked stock in issue is, very approximately, only enough to cover about 20 per cent of the required liability. Of course that would not stop any one pension fund from buying such stock at the present time. However, that fund still could not guarantee indexing for all pensions because it would have no knowledge of either the terms or the availability of such stock at any time in the future.

A wider issue Mr Tomkins raises is whether Government could take on inflation-proofing for all funded pensions. Unfortunately it seems that an inevitable consequence of inflation is that some sectors of the population gain and some lose. If more are protected the loss has to be concentrated on a smaller group. In practice, automatic inflation-proofing across the board just escalates the rate of inflation, as has been seen in those countries which have tried this route.

For these and other reasons, I believe pensioners must continue to rely on discretion to some extent for their increases. Nevertheless we are still hoping that, as a result of the current Occupational Pension Board inquiry, a way will be found to increase inflation protection for pensioners.

As to whether present arrangements particularly suit the actuaries, I can only say that, like all professionals, we are employed by our clients and our clear duty is to operate in their best interests.

R.B. Colbran,
Institute of Actuaries,
Staple Inn Hall, WC1

Messy misunderstanding

From Mr Dennis R. Yeager.

Sir, Lionel Barber ("Parched politics in Bubbaland," October 1) shares a common misconception about the "Don't mess with Texas" bumper stickers.

The "Don't mess with Texas" campaign has nothing to do with Texas chauvinism. It is a statewide campaign against litter. Mr Barber probably would have been even more surprised had he noticed one of the official state signs along the roads carrying the same message and announcing the fine for failure to comply.

You may wonder why a New Yorker knows so much about this. As everyone knows, New Yorkers think we know everything.

Don't mess with New York.

Dennis R. Yeager,
888 Seventh Avenue,
New York, NY 10106

Autumn sowing reduces nitrate

From Dr Denis C. Hardwick.

Sir, It was surprising that so well-informed an agriculturalist as David Richardson, when discussing the steady growth of autumn cereal planting (Farmer's Viewpoint, October 11), should not have mentioned the important environmental aspect.

Autumn planting helps to soak up the nitrate produced from soil organic nitrogen in the autumn. We are already seeing the benefits of increased autumn cereal sowing in the reduced nitrate levels in some aquifers in eastern England.

Higher yields are not the only reason for promoting autumn sowing.

Denis C. Hardwick,
The Fertiliser Manufacturers Association Ltd,
Greenhill House,
90-93 Cowcross Street, EC1

'This particular doctrine should be attributed to others'

From Mr T. Congdon.

Sir, Samuel Brittan's Economic Viewpoint ("The Burns doctrine: a closer look," October 6) on the balance of payments was, as usual, a very worthwhile contribution to the debate on economic policy. But the attribution to Sir Terence Burns of the view that a private-sector payments deficit does not matter is surprising.

As far as I am aware, the first suggestion that a private-sector payments deficit was not a policy problem was made by Professor Max Corden in a lecture series in Chicago in 1976. It was published in the book based on the lectures, Inflation, Exchange Rates and the World Economy, in 1977. The key idea was clearly stated: "One should just assume for the purpose of discussing balance-of-payments issues that the private sector knows what it is doing, and what is good for it, as far as its spending and savings decisions are concerned."

But Prof Corden's remarks were very brief. I decided to write them up properly and contributed an article, A new approach to the balance of payments, to the October 1982 issue of Lloyds Bank Review.

The article provoked much criticism. The Review received letters of protest from Professor James Meade, Professor Anthony Thirlwall and Mr Roger Bootle, and these were published, with my reply, in the April 1983 issue.

I am open to correction, but I believe that Sir Terence has not written anything specifically on the "new approach". He wrote widely about the balance of payments before his appointment as Chief Economic Adviser in 1979 and has undoubtedly been responsible for some excellent economic ideas since, but this particular doctrine should be attributed to others.

Tim Congdon,
68 Alderney Street, SW1

An awfully one-dimensional view of economic freedom

From Mr Doug Henwood.

Sir, It is surprising that a writer as thoughtful as Joe Rogaly ("As the conservative tide ebbs," September 10) should accept so uncritically the Hayek-Friedman line that "political freedom and economic freedom are indivisible. Control over the economic activities of individuals leads inexorably to control over all aspects of their lives."

Recent history proves no such thing. In fact, one could make the opposite argument: as markets are given freer rein, inequalities increase, requiring an amplification in the state's power, not its withering away.

Four examples immediately suggest themselves.

- In Chile, Friedmanism has reigned for a decade, but formal democratisation has proceeded much further in Latin American countries where the state retains a more active role in the economy, like Brazil and Argentina.
- In the UK, the Government has enlarged its role in national life even as Mrs Thatcher was reducing its economic role.
- In the US, civil liberties have suffered innumerable setbacks under Ronald Reagan.
- Finally, Chinese reformers have shown little interest in promoting political liberalisation along with the economic variety; they like markets because they crack a disciplinary whip, not because they liberate individuals.

While most libertarians worry about the dangers of concentrated governmental power, they are indifferent to concentrations of private power. But for most workers, their daily experience of work is not unlike living in an authoritarian state: they must follow instructions or face economic catastrophe. Nor do they have any say in what their societies produce, for whose benefit and under whose direction. Such decisions are left to boards of directors elected by a small shareholding élite on a one-share-one-vote principle.

Conservatives East and West are happy to offer only two possible forms of economic organisation, Stalinist central planning and the market. Any idea of a democratised planning mechanism is thus evicted from the realm of acceptable discourse. Defining economic freedom as the mere absence of restrictions on the entrepreneurial class is awfully one-dimensional.

Doug Henwood,
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FINANCIAL TIMES

Thursday October 13 1988

British Coal to be privatised 'after next election'

By Peter Riddell, Political Editor, in Brighton

BRITAIN'S Conservative government yesterday reaffirmed its intention to privatise the state-owned coal mining industry if it wins a fourth successive term in office.

Mrs Margaret Thatcher, the Prime Minister, who will end the conference with a keynote address on Friday, does not need to call a general election before 1992.

The scheme, which is likely to be bitterly opposed by Britain's traditionally militant miners, follows proposals made on Tuesday by Mrs Thatcher's government to increase private sector involvement in roads and possibly to privatise the country's state-owned rail network.

The sole remaining large state-owned business in the UK is the Post Office, whose future is under review.

The announcement was made by Mr Cecil Parkinson, the UK's Energy Secretary, who raised the prospect that miners "will be shareholders in their own industry."

Nationalisation of the mines in the 1940s was one of the central policies of the reforming post-World War Two Labour government of Prime Minister Clement Attlee. In the 1970s and 1980s, the industry became a hotbed of trade union militancy. Action by the National Union of Mineworkers helped bring down Mr Edward Heath's Conservative government in 1974.

Chinese take the brakes off car industry

Lynne Curry reports that demand for passenger cars is far outstripping production

A DECADE ago, Peking was a city of bicycles in which the traffic jam was virtually unknown. Apart from the odd truck, bus or jeep, virtually the only passenger vehicles on the road were Chinese-made limousines, carrying government officials and foreign dignitaries behind drawn curtains, and the old-fashioned Shanghai sedan.

But the dramatic changes wrought by China's economic modernisation drive have brought an explosion in the use of passenger cars, leading the Chinese to step up their production of vehicles.

Analysts believe, however, that Peking will have serious problems satisfying consumer needs over the next few years, let alone fulfilling the hope of some Chinese manufacturers to export cars on a massive scale.

"It is impossible to snap your fingers and start a car industry," said one industry source. "Production is unlikely to meet demand in the near future."

The challenges and problems facing China's domestic motor industry have been shaped in large part by the country's stiff import regulations.

To encourage the development of its domestic industry and curb the expenditure of hard currency by Chinese organisations for the purchase of foreign-made vehicles, the Government has imposed prohibitive duties on imported passenger cars which, although recently lowered, still range between 120 and 160 per cent of the purchase price.

Imported cars and even domestically made ones are still far too expensive for most individuals. Nonetheless, despite the exhorbitant tariffs, demand from Chinese companies shows no sign of abating as Peking relaxes its central control and enterprises acquire greater power to spend foreign exchange.

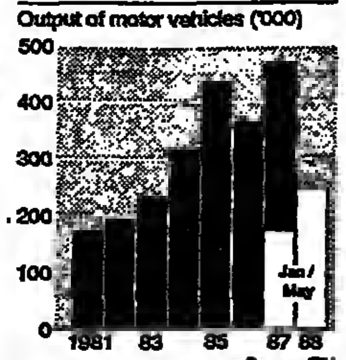
Peking's restrictions on imported cars are a reaction to the spending spree which saw car imports soar from 25,200 vehicles in 1983 to 354,000 in 1985. Observers estimate $230m in hard currency was spent on imported cars in 1985 alone – more than the country had invested in its entire motor industry since the communist revolution in 1949.

In an effort to consolidate funds, technology and production costs, the State Council, the Government's top decision-making body, last year designated three factories to be China's car production centres: the Number One automobile works in Changchun, Jilin province, the Number Two automobile works in Shiyan, Hubei province, and the Chinese joint venture with Volkswagen in Shanghai.

Their joint target is to turn out 750,000 cars annually by the year 2000. In each of these factories, the Chinese have formed or are in the process of forming joint ventures with foreign partners, with the aim of being able to export cars and compete on the world market.

China

Output of motor vehicles ('000)



Source: EIU

The Number One factory has recently concluded a technology licensing agreement with Audi of West Germany to produce 30,000 Audi cars with Chrysler engines by 1992, initially assembling imported parts and gradually increasing the number of locally produced components. The first cars, which are already sold, will be ready for distribution at the end of October. The goal is to make 150,000 cars per year by the mid-1990s.

Meanwhile, the Shanghai Volkswagen Automotive Company, a joint venture established in 1985, turned out more than 10,000 Santana models last year and plans to produce 15,000 this year.

The Number Two factory, known primarily for its large-scale truck production, is still believed to be negotiating with General Motors and Citröen before selecting a foreign partner.

Peugeot of France and Chrysler of the US are the other foreign companies involved in joint venture automobile projects. Peugeot's factory in Guangzhou last year manufactured about 8,000 pickup trucks and station wagons. It plans to export about one third of its eventual target output of 30,000 vehicles.

Peking is pushing Chrysler to expand its investment and technology in the Peking Jeep Corporation, and recently sent a delegation to Detroit to discuss the issue. Under its present arrangement, the joint venture produces about 4,500 Cherokee models and 26,000 conventional Jeeps a year. The company hopes to boost production to 100,000 vehicles a year by the mid-1990s.

Apart from a Tianjin-based joint venture involving Daihatsu, the Japanese are not generally involved in automobile production in China. Although Toyotas are ubiquitous, all have been imported.

"The Japanese are reluctant to invest here," one industry source said. "They are reluctant to give away technology."

The lack of high quality locally-made components is the chief obstacle to expended production. The problem is compounded by the fact that most joint venture agreements require manufacturers to increase the amount of domestically-made components used every year. This has often forced some operations to mount nationwide searches for the appropriate parts.

The nature of the problem was graphically illustrated when the Peking Jeep Corporation found itself without the neccessary foreign exchange certificates to buy imported components for its Cherokee model. The parts were not available locally, but the company could not convert its cash into hard currency to buy them abroad. Only government intervention, reportedly at vice-premier level, enabled Peking Jeep to transfer funds and acquire additional loans in order to purchase the much-needed parts.

Poor infrastructure is another serious problem. An inadequate road system and insuffiecnt petrol stations compound the problems manufacturers often face from shortages of raw materials, particularly steel. Plants are sometimes forced to halt production by such shortages.

While the state-run manufacturers continue to struggle, some smaller, more flexible market-oriented car makers have emerged on the Chinese scene, inspired by the South Korean example. Observers say these companies have a much better chance of becoming successful exporters.

Dukakis letter hints he would soften US line on agriculture

By William Dullforce in Geneva and Nancy Dunne in Washington

US POLICY on farm trade reform has been disowned by Mr Michael Dukakis, the Democratic candidate in the US presidential election.

In a hitherto unpublicised letter to the Iowa Farm Unity Coalition dated August 3, Mr Dukakis said he welcomed the statement of concern voiced by the Coalition about the Reagan Administration's proposal that all countries should end government intervention in agriculture over the next 10 years.

Mr Dukakis's letter, copies of which are now circulating among trade negotiators in Geneva, said: "In my view the Administration's initiative is neither realistic nor in the best interest of agriculture." Farm programmes were needed to safeguard world food needs and protect producers, he wrote.

The letter appears to reinforce the view held in some European capitals that Washington's insistence on a complete end to agricultural subsidies, which has pitched the US against the European Community, could soften if Mr Dukakis wins the election.

The US has warned that the General Agreement on Tariffs and Trade's trade-liberalising Uruguay Round could fall apart, if trade ministers do not make long-term commitment of this kind when they meet in Montreal in December.

In the second US attempt in two weeks to break the deadlock Mr Daniel Amstutz, the chief US negotiator in the farm talks, yesterday proposed that all current import quotas and other quantitative restrictions on agricultural imports should be converted into tariffs, which would be progressively reduced over time.

The proposal, meant to improve market access for food exporters, was contained in a paper read by Mr Amstutz at an informal meeting of senior negotiators. It has not been formally tabled in the Gatt talks, but Mr Clayton Yeutter, the US Trade Representative, referred to it in a briefing for journalists in Washington yesterday.

Mr Yeutter said that Australia and New Zealand had converted non-tariff restrictions into tariffs and the principle had also been used in the agreement the US had recently negotiated over beef exports to Japan.

At an informal meeting of trade ministers at Islamabad 10 days ago, Mr Yeutter appeared to put the Community on the wrong foot by offering to discuss the short-term reform measures preferred by the EC, provided the commitment to the long-term elimination of all farm supports was made at Montreal.

Mr Yeutter said that the US would agree to freeze export and domestic subsidy programmes at existing levels and "might be prepared to go further in Montreal". However, he reiterated the Community's position on long-term change was "indefensible".

Apple founder shows off NeXT computer to 3,000

By Louise Kehoe in San Francisco

MR STEVEN JOBS, co-founder and former chairman of Apple Computer, unveiled his long-awaited NeXT computer yesterday at a gala event in San Francisco's Davies Symphony Hall attended by more than 3,000 computer-industry executives.

The NeXT computer "will change the future of computing" Mr Jobs claimed. "We have worked on this for three years and it is incredibly great."

"NeXT's mission is to collaborate higher education to develop innovative personal and affordable computers for the next generation and beyond," he said.

Mr Jobs called his computer a "desk-top mainframe," a system with the power of a mainframe computer housed in a single 1 ft black cube.

The NeXT computer which includes 8MB of memory, an optical disk drive, and a very high resolution display will sell for $6,500, a substantial price breakthrough in the market.

NeXT also introduced a high resolution laser printer which it claims will outperform any other on the market today for the extremely low price of $2,000. NeXT will offer its products first to the students and faculty of US universities and colleges.

"There is a revolution in computer use on college and university campuses," said Mr Jobs. He estimated that the 3,000 US colleges house over 12m students, many of whom need high-power computing.

The NeXT computer will be manufactured at a fully automated plant in Freemont, California, the company said.

The NeXT computer will run software applications designed for the UNIX operating system, but Mr Jobs said that new software under development for the NeXT computer will use its power more fully.

A hundred or more computer software companies are planning to attend a special conference for NeXT computer software developers tomorrow in San Francisco.

US trade figures undermine dollar

Continued from Page 1

figures would be an important factor in determining the future course of the dollar.

The dollar broke through the key Y130 level in Tokyo and weakened during the European and North American sessions as concerns over today's trade figures intensified financial markets' nervousness.

The consensus expectation for US trade in August is for a deficit of around $11.5bn, up from July's $9.5bn. However, rumours in London and New York of a higher deficit undermined an already fragile confidence in financial markets.

At midsession in New York, the Dow Jones Industrial Average stood 26.14 points lower at 2,130.33 and prices of US government bonds were quoted as much as ¾ of a point lower.

The dollar continued to languish near to the day's lows and, at midsession, was quoted at Y128.95 compared with Y131.40 earlier and at DM1.8350 compared with a high of DM1.8575 earlier in the day.

In London, the dollar slipped by more than 2 yen and 1½ pfennigs to close at Y128.9 and DM1.8355 respectively, leaving the FT-SE 100 Share Index 24 down at 1,814.3 and the FT Ordinary Share Index 15.3 lower at 1,471.9.

On Wall Street, nervousness about the latest trade figures was heightened by reports of an October 7 letter from Senator William Proxmire, chairman of the influential Senate Banking Committee, to Mr Nicholas Brady, the new US Treasury Secretary.

Senator Proxmire asked Mr Brady for his views about the potentially negative impact on efforts to cut the US trade deficit of the dollar's rally this year.

Dealers are worried that if the cut in the trade deficit appears to falter, the Administration will be pressed to allow the dollar to fall.

Dukakis debate chance

Continued from Page 1

college vote for each senator and member of the House of Representatives.

Earlier this week the Field Institute, a California polling organisation, concluded on the basis of a state-by-state analysis that if the election was held now Mr Bush would have a base of 254 electoral votes, only 16 short of the number needed to win.

Mr Dukakis is given 92 electoral votes, a dramatic turnaround since early August when a similar exercise gave him 356 electoral votes.

Such estimates can only be taken as a general guide to the relative strength of the candidates, not least because in several of the states which the Field Institute assumes Mr Bush will win, the gap between the two is very narrow and could quickly close.

Field says that 34 of the 50 states are still competitive.

Such assessments of electoral college strength do, however, reflect the broader judgments of political analysts in Washington who believe Mr Bush has established a much more solid base, particularly in the South and West, and is now enjoying the luxury of being able to attack Mr Dukakis in some states which the Massachusetts Governor badly needs to win, particularly in the Midwest.

WORLD WEATHER

Bonn trade surplus jumps 10%

Continued from Page 1

from January to August up 6.5 per cent in nominal terms to DM360.8bn, and imports up 5.5 per cent to DM281.2bn, point to a further increase this year in the overall trade surplus. This was a record DM117bn last year.

Officials also say that the West German current account surplus – which totalled DM81bn last year – will rise again in 1988. Between January and August, the current account surplus rose to DM49.5bn, 3 per cent up on the eight months figure last year of DM48.2bn.

The nominal increase in the surpluses conceals an expected small fall in the real (inflation-adjusted) foreign surpluses this year. West German export prices this year have risen more than import prices, restrained above all by falling energy prices. Although, in the first six months at least, the economy has been driven more by domestic demand than by exports, officials say that the much improved export picture has fed through quickly into the domestic economy, particularly by stoking up capital investment.

Mr Ernst-Moritz Lipp, chief economist of the Dresdner Bank in Frankfurt, said yesterday that exports in real terms were expected to grow by 5.5 per cent in 1988, against a 6.5 per cent real increase in imports. Both increases, much higher than expected at the beginning of the year, reflect the better-than-expected expansion of world trade and strong international demand for West Germany's specialised capital goods, such as machine tools.

THE LEX COLUMN

Racal waits for its US callers

This week's crack in sentiment towards the dollar is almost as surprising as its burst of strength three weeks ago, and while there is some concern about today's US trade figures, the real worry is that Japanese investors may be signalling the end of the sharp US bond market rally.

Allied/Suntory

With the long shadow of Mr Alan Bond on Allied-Lyons' share register, it is perhaps natural to assume that any move Allied makes at the moment is designed to put him off. But when the deal makes as much commercial and financial sense as yesterday's link-up with Suntory, one can be forgiven for wondering whether defensiveness is just a side-effect – and not a very powerful one at that. True, every 2½ per cent helps; but it is hard to believe it would halt a determined antipodean in full stride. And to judge from the Allied share price at the moment, the market thinks Mr Bond's bankers will trip him up far sooner than Suntory could hope to: Allied ought to be able to manage an average market multiple without needing Mr Bond to increase its allure.

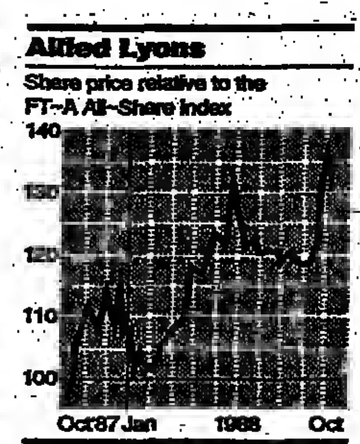
Clearly, Allied wants to get into the Japanese market as badly as Suntory wants to diversify out of it – or out of that part of it which will be hit by the removal of the tax shelter for the cheaper domestic brews. However with Suntory paying what Allied coyly calls an "entry fee" of £44m for the privilege of joining the Allied-Lyons club – contributing to Allied's £100m-odd net gain on the deal – it is difficult to resist the suggestion that co-operation means a lot to the Japanese. And as Mr Keizo Saji pointed out yesterday when regretting the loss of his financial virginity, the same one per cent shareholding which looks insignificant from London must look like quite a bit in Tokyo. But Allied, too, would be lost without a Far Eastern foothold; and Mr Bond must know that as well as anybody else.

Klöckner & Co

Deutsche Bank must be more than displeased at the carelessness with which Klöckner & Co has contrived to lose about twice its equity base dabbling in oil futures. After having carried Klöckner-Werke through recession and restructuring to a point where it is on the verge of being profitable, it is now having to support the inherently profitable trading company, but for much less good reasons. It is not as though potential losses of DM700m are easy to come by, even when oil prices are falling. The extent of the damage suggests Klöckner was handling positions on a scale difficult to comprehend if it were merely using the market to meet its own needs.

Allied Lyons

Share price relative to the FT-A All-Share Index



Meanwhile, shareholders in Deutsche Bank and the other Klöckner companies may take little comfort from the fact that this seems to be a one-off. The losses would be neatly covered by sales of its major stakes in both Klöckner-Werke and in Klöckner-Humboldt-Deutz, and while it may not come to that the market is right to be anxious. In Germany they must be praying for a recovery in the oil price even harder than the sheikhs themselves.

Racal Telecom

There is no doubt that Racal Telecom is a financial gold mine at present but this does not mean that it deserves to be priced at over 80 times earnings. Investors in the flotations of other growth companies like Reuters and Wellcome have done very well out of them, but then the initial prospective multiple was far less demanding. There must be a suspicion that in its eagerness to escape from the clutches of Cable & Wireless, Racal is being a mite too greedy in putting a price tag of £1.7bn on its offspring while the stock market seems to be valuing the rest of its business at less than £300m.

This is not to say that Racal Telecom is not a very fast growing and extremely profitable business. However, its profits will have to triple over the next three years if its shares are to get anywhere near close to an average stock market rating. If the shares are to outperform the market, then the performance will have to be even better. There are good reasons for believing that Racal Telecom can meet its ambitious growth projections over the next two to three years; but after that, worries about new competitors and a more hostile regulatory environment could threaten its continued premium rating.

Admittedly, this will be partly offset if Racal Telecom can tap into the huge growth potential in continental Europe. But this is still a dream; and for the moment, the real reason that Racal Telecom shares are being priced so highly is that the company's US advisers are confident that investors in the more expensively rated US cellular radio stocks will think Racal Telecom an outright steal at 170p. If correct, then Goldman Sachs will have earned its generous fees.

British Gas

One of the beauties of having an operating cash flow of £1.5bn is that $200m is pocket money. British Gas can easily afford to spend that on Tenneco's international assets, and still have plenty left to pay £1bn plus for Lasmo, if that is what it wants to do. According to yesterday's meagre helping of information from the company, the Tenneco assets are just a start in building a big international oil exploration group, which means further acquisitions are more or less guaranteed. If clarification was needed about British Gas's intentions in its unsuccessful dawn raid last month, yesterday's deal must prove it was interested in Lasmo for itself as much as for its holding in Enterprise.

As far as the assets themselves go, British Gas is unlikely to have outbid the competition at the auction and still have ended up with a bargain. However, while it may have paid generously in terms of dollars per barrel, that may not matter. It is getting a broad spread of acreage, some experienced people who understand it, and a good data base to build on; even if a home grown package could be created at a similar cost, it would take considerably longer. What British Gas now lacks is international production to match the acreage, and that is precisely what Lasmo has.

ACCOUNTANCY COLUMN

White knuckles in the rust belt over benefit changes

By Richard Lambert

The initials OPEB stand for a group of payments for retired workers that were agreed by many US employers in the 1960s. Yet only now are the consequences becoming clear. The payments could wipe out the earnings of companies such as General Motors and USX.

OPEBs. As an acronym, it does not sound like much of a threat. But don't be fooled. The letters stand for an accounting concept which is beginning to cause white knuckles in the American manufacturing sector and which, if fully adopted, might wipe out the earnings of companies such as General Motors or USX, which used to be known more familiarly as Big Steel.

All will be revealed within the next couple of months, when the US Financial Accounting Standards Board (FASB) is due to publish a keenly awaited exposure draft on the treatment of other post-employment benefits (OPEBs). Those include accident and health insurance, life assurance, legal aid: in fact everything that a company promises to pay its workers after they have retired, apart from their pensions.

Big money is involved. General Motors, which like most other companies finances such payments on a pay-as-you-go basis, charged an expense of $820m (£480m) to its profits last year under that heading, compared with after-tax income of some $3.5bn.

Today, around two thirds of US companies offer these benefits in one form or another, and the bigger they are, the more generous their terms: just about all the very large companies offer retiree health care benefits in one form or another.

Typically, the plans will cover hospital costs, plus some doctors' fees and medicine. After the age of 65, some of the burden is shared with the government Medicare health scheme – but spending curbs are throwing an increasing slice of the costs back at the companies.

Most managers installed these schemes without a great deal of thought about the long-term consequences. Many of the plans were started around the mid-1960s, at about the same time as Medicare, when medical costs in real terms were much lower than they are today, and when the number of active workers far outstripped retired employees for most companies. Even five years ago, a typical steel company might have three active workers for every two retired: today in some cases there are two retired for every worker still on the payroll.

As a result, the potential liabilities for benefits of this kind are enormous. Estimates for the total unfunded liability for the US corporate sector range from around $100bn all the way up to $2 trillion and even higher.

The impact will vary from company to company, and will be felt hardest by old-line, unionised manufacturers in the rust belt which have been offering these benefits for a long time, and have laid off large numbers of youngish people in the last few years. The least affected will be young, high-tech businesses with high value added and small workforces.

In most cases, these are not ex gratia payments, and it is not as though companies are free to cut back if they start to feel a financial strain. Attempts to do so have already resulted in litigation, and any attempts to cut benefits on any large scale are likely to result in legislation from an unsympathetic Congress.

The obligation is confined to US operations. For example, General Electric recorded a charge of $278m last year in respect of retiree health and life insurance benefits (it uses a more conservative treatment than most companies); it added that "most retirees outside the US are covered by government programmes and GE's cost . . . is not significant."

Some companies do not even bother to record the annual expense as a footnote in their accounts, and many apparently have no idea about the scale of their aggregate liabilities.

The FASB wants to change all that. It believes that the benefits represent a form of deferred compensation, just like pensions, and that an obligation should be recognised in accounting terms based on services rendered. In essence, it is saying that companies will have to accrue benefit costs as employees earn them.

The company will first have to measure what is termed its expected benefit obligation, by measuring its current costs and making projections about future outlays on the basis of trends in medical expenses, life expectancy and other factors. The obligation will be discounted on a present value basis, and the charge to profits will be spread over the period that the benefits are earned.

Then there is the question of accounting for benefits that have been offered in the past, and have not been funded. Under the FASB plan, this so-called transition obligation would normally be written off against profits on a straight-line basis over a period of approximately 15 years.

RETIREE COSTS FOR US COMPANIES IN 1987

	Net Income	Expense for OPEBS
	$m	
USX	219	127
Ford	4,625	341
Gen Motors	3,551	820
Caterpillar	350	54
Alcoa	200	32

In layman's terms, what this adds up to is a very substantial increase in the amount charged to profits each year to cover these benefits. Mr John Deming, of KPMG Peat Marwick in New York, suggests that the figure could be three or four times the amount set aside on the pay-as-you-go-basis. For a number of companies in the rust belt, an increase on that scale would wipe out the profit figure.

So the FASB's proposals will be highly controversial. Mr Art Siegel, of Price Waterhouse, suggests that opposition will come on several different levels. Some will argue that this whole basis of accounting is inappropriate since the benefits do not come into effect until the employee is eligible for retirement. Others will say that future costs are impossible to estimate, and that it is therefore absurd to pretend that the benefits can be calculated on the same actuarial basis as a pension scheme.

Finally, there is the big business lobby, which is beginning to make its voice heard. It will argue that by insisting on what are no more than book-keeping items, the FASB will place US companies at a disadvantage vis-à-vis their international competitors by imposing a standard that will take a great slice out of their profits and tangible net assets. Protests from the business community have delayed publication of the exposure draft by several months, and have already brought some minor modifications to the FASB's proposals.

The likelihood is that a standard will be imposed for dealing with these benefits: the big question is about how far the FASB may be inclined to compromise in order to shed some light on these enormous liabilities. The coming exposure draft will probably be on the table for about six months, longer than normal because of the controversy it is already creating. That will be followed by public hearings next summer, with a final statement ready by the middle of 1990. On that timetable, the new standard would probably start to bite from 1992.

Even if the lobbyists are successful in crimping FASB's new rule, OPEBs will still come home to roost as a heavy drain on profits. Ignoring the issue would mean higher profits today – but would store up trouble for the future.

ACCOUNTANCY APPOINTMENTS

Group Finance

Kleinwort Benson Group is looking for a Financial Accountant to join this key Head Office department. Group Finance comprises a small team responsible for all financial reporting and financial control at a Group level. The department reports directly to Senior Management.

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For an application form telephone or write (quote appropriate ref.) to Jo Marsh, Head of Personnel on 01-576 2508, Room A3080, BBC Enterprises Ltd, 80 Wood Lane, London W12 OTT.

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Tax Accountant

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East Midlands **c£27,500+Car+Benefits**

Our client is a highly successful subsidiary of a major international public group, marketing a range of high quality printed products to Blue Chip customers. The company has a turnover approaching £14 million and operates on an autonomous basis, but having the benefit of excellent support from the wider group.

Owing to a recent promotion within the group, the company now has a requirement for a Financial Director (Designate) to assume control of all financial, company secretarial, data processing and purchasing activities. In addition the successful candidate will be expected to become heavily involved in the wider aspects of the management of the company, acting very much as a number two to the Managing Director.

Candidates should be qualified accountants aged 27-35 with a broad base of financial management experience to date and an entrepreneurial business outlook. Personal qualities will include strength of character, drive, determination and the ability to manage a rapidly changing environment.

The group offers unrivalled potential for future advancement to more senior line financial roles and ultimately, into general management, therefore only candidates with the necessary commercial flair need apply.

If you feel that you can meet this challenge please write to Ian Leech at Michael Page Finance, Imperial Building, Victoria Street, Nottingham NG1 2EX or telephone him on (0602) 483480.

Michael Page Finance
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham
Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

MANAGERS FOR THE 1990s

INCREASING CUSTOMER SOPHISTICATION
GLOBALIZATION OF MARKETS
THE MANAGEMENT CHALLENGE
RAPID TECHNOLOGICAL DEVELOPMENT
DEMOGRAPHIC CHANGE

To succeed in the 1990s and beyond, managers will increasingly need to be:

- INTERNATIONALLY MOBILE — TO EXPLOIT OPPORTUNITIES WORLDWIDE.
- MULTIDISCIPLINED — TO MANAGE CONTINUOUS CHANGE.
- ACTION ORIENTED — TO STAY AHEAD.

TNT Skypak is an international express parcels, documents and mail carrier and part of Australian based TNT, the largest integrated transport group in the world.

With a high transaction volume, global network, continuous product and systems development, and control through the bottom line, management of the finance function is both central to the success of the business and integrated with marketing and operations.

If you have the will to be a top manager, recognise the opportunity inherent in this environment and want to know more, phone either Patrick Johnson or Richard Parnell of Robert Walters Associates on 01 437 0464 between 8.00am and 10.00pm today.

ACAs TO £25,000 + CAR INTERNATIONAL TRAVEL

TNT Skypak International Express

TNT The Worldwide Transportation Group

CORPORATE TREASURER

W6

SALES PROMOTION & MARKETING

TO £37,500+Car+Subs Bens.

F K B group plc

Started just six and a half years ago, the F.K.B. Group have grown rapidly to become the leading sales promotion and marketing consultancy on both sides of the Atlantic. This prominence has been achieved through a combination of an aggressive acquisition strategy and a well conceived organic growth policy. The success of the Group can be directly attributed to a young, high calibre and forward looking management team.

As a direct consequence of this continued expansion, the Group wishes to appoint a Corporate Treasurer who will be expected to play an active role in its future development. Reporting to the Group Finance Director, this position will have primary responsibility for the management of the Group's cash resources. This will include the development of an optimal cash management structure, the use of corporate banking facilities and negotiation of credit lines. As a direct consequence of the continued overseas expansion, with a particular focus on Europe, the Treasurer will be expected to introduce efficient management of the Group's rising foreign currency exposure.

The successful candidate is likely to be aged between 28 and 36 and have had at least 5 years commercial experience, a substantial part of which will have been in Treasury. Additionally, you will have had direct experience of working in a Group, where a great importance is attached to the efficient cash management of subsidiary companies. Finally, it is likely that you will be looking for a unique opportunity to join a fast moving company which will provide both a professional and personal challenge and where you will be expected to make an important contribution to the future of that Group.

*For further information, please contact **Mark Spickett** on **01-629 4463** or write to him at: Cardinal House, 39-40 Albemarle Street, London WIX 3FD.*

OLIVER McKENZIE
SEARCH AND SELECTION CONSULTANTS
Cardinal House, 39-40 Albemarle St., London WIX 3FD. Tel: 01-629 4463

THE CHARTERED INSURANCE INSTITUTE

Financial Controller

£26,000 to £28,000 inc.

CII is a professional and educational body based in the City. We have a £6.5 million turnover and this will increase over the next few years.

We are seeking a recently qualified FCA (or FCCA) with a general commercial background. The person appointed will take charge of all aspects of the Institutes finances from the management of the Accountant to the control of investments. The emphasis will be on implementing robust financial procedures which can be introduced effectively to 'non-financial' managers. This post will report to our Director of Finance.

In addition to a friendly working environment we offer 27 days paid holiday, a generous non-contributory pension scheme, subsidised lunches and a season ticket loan arrangement.

For further information and an application form call: Graham Smith on 01-606 3835 or write to him at: Personnel Department, The Chartered Insurance Institute, 20 Aldermanbury, London EC2V 7HY quoting ref FCI1.

GROUP FINANCIAL CONTROLLER

Key role in a major public company in the leisure sector.

SOUTHAMPTON c £32,000-£35,000 + CAR + BENEFITS

TVS ENTERTAINMENT PLC is a leading international communications group encompassing TVS Television, the ITV franchise holder for the South and South-East of England, MTM Entertainment, a major US television programme producer, and Midem, a French media trade fair promoter. TVS has an impressive record of profit growth and is implementing planned expansion by acquisitions and organic growth.

TVS seeks a dynamic individual to take responsibility for group reporting, treasury and tax matters. The successful applicant will report to the Group Finance Director, monitor group performance and actively contribute to the formulation of group financial policies.

Candidates should be chartered accountants with approximately four years post qualification experience, above average academic records, and be able to demonstrate significant career progress to date. Excellent interpersonal skills, sound commercial judgement and energy are required to succeed in this demanding role.

Please write with full curriculum vitae, quoting reference number 116S88/FT to:- Personnel Manager, TVS, Television Centre, Southampton SO9 5HZ

TVS welcomes applications from all people regardless of sex, race or disability.

TVS ENTERTAINMENT

FINANCE DIRECTOR

Media Company

London

c £40,000 + benefits **Equity share**

This is a demanding role, in a small but fast-growing company who represent regional newspaper interests at a national level.

Reporting to the Managing Director, you will complement and underpin his business flair with your own commercial and financial acumen. You will control the total accounting, company secretarial and systems functions of the company with a small team and will be expected to give strategic input to the direction of the business from a financial standpoint. You will be a key executive member of the board, working closely with the Managing Director.

You will probably be 32-45 with a good degree and an accountancy qualification. You will need to show at least six years progressive track record ideally in a service industry at a senior level.

The role is likely to appeal to candidates who want to get more "hands on" experience in a small, friendly environment which will give them more freedom than they currently enjoy.

It also offers the chance to reap the rewards of your efforts through a generous equity share scheme.

Please send a comprehensive résumé including salary history and day-time telephone number, quoting ref: 2976 to Bruce McKay, Executive Selection Division.

Touche Ross
Thavies Inn House, 3/4 Holborn Circus, London EC1N 2HB.
Telephone: 01-353 7361.

FINANCIAL CONTROLLER

£25-30K plus car and benefits

This private company, based in West London, and presently employing c.300 staff is entering an exciting phase of expansion in the retail/catering sector.

Reporting to the Managing Director, to successful applicant will need to be capable of further developing computerised accounting systems and have the desire to become really involved in the operation. The position will appeal to a young qualified accountant seeking a challenging and responsible senior management position.

Please send C.V. to:
**Helen Ogg
34-38 Standard Road
LONDON NW10 6EU**

Business Analysis – early flotation

Newly/Recently Qualified Accountant

City To £25,000+Benefits

The continuing success of this young, enterprising communications and media group is reflected in a 25% p.a. growth rate and a projected turnover of £50m for next year, paving the way for market flotation by 1990. As a result, they are seeking an ambitious accountant to strengthen their finance function.

As an integral part of a small, close-knit team, you will be involved in the analysis and review of the group's profitability. Liaising closely with sales, marketing and production managers, your brief will cover all aspects of financial planning and systems enhancement, in addition to a broad range of ad-hoc assignments, such as new product feasibility studies.

Working closely with the Financial Director on the impending flotation, you will gain valuable all-round exposure to merchant banks and other professional advisers.

This unusually varied role offers exceptionally broad experience to a commercially aware newly/recently qualified accountant, in their mid-late 20's, who can demonstrate excellent communication, skills and considerable drive and flair. Every opportunity exists to make a real and increasing contribution to the organisation's future success.

For further information, please contact PAUL BAKER on 01-404 3155 at ALDERWICK PEACHELL AND PARTNERS LIMITED, Accountancy and Financial Recruitment, 125 High Holborn, London WC1V 6QA.

Alderwick and Peachell
PARTNERS LTD

Financial Director Designate

East Anglia **Circa £27,500 + Car + Benefits**

Frozen Quality Limited was formed by a group of East Anglian farming combines to add value to their products by freezing, packing and selling direct to the major retail multiples.

With the addition of a well developed trading activity to broaden their product range, turnover is now around £25 million, 20% of which is branded under the Froqual label and profitability is very good. All manufacturing is contracted out and there are 30 employees.

The future prospects of this company are very exciting and the need has now been identified to strengthen the senior management team. Reporting to the Managing Director the successful candidate will be fully responsible for the finance function and will play a key role in the general management and direction of the company. Initial duties will be to improve the existing accounting system and raise the function to a proactive role.

Candidates must be in their 30s/early 40s, qualified and have held a senior financial position in a consumer (fmcg), manufacturing or marketing environment, gained ideally in a medium sized company. Relocation expenses will be paid if necessary.

Interested applicants, should send a detailed CV or telephone for an application form quoting reference 7021/FT.

Wickland Westcott & Partners
LONDON · WILMSLOW · PARIS · BRUSSELS
Search and Selection; Management Development
21 Cork Street, London W1X 1HB. Telephone: 01-439 1113.

GROUP FINANCE DIRECTOR

North East Scotland

Salary: £35-40,000 + benefits

The position of Group Finance Director is a new appointment reporting to the Group Chief Executive of a Scottish based holding company having manufacturing subsidiaries in the UK and USA with worldwide sales network. Current turnover is £20m, which is forecast to expand rapidly and it is intended to obtain a listing in due course.

Responsibilities will be to manage the company's corporate finance function, ensuring the effectiveness of controls within subsidiary companies. The Director would be expected to contribute a financial perspective to all aspects of business strategy, liaising with business managers to set commercial goals and stimulate strategic thinking.

Candidates should be aged 35-45, Chartered Accountants with overall financial controllership experience within a multinational company and ideally in a manufacturing environment.

The Group's business ambitions require the successful candidate to have a high degree of technical ability, excellent communication and inter personal skills and an empathy with the objectives of an expanding company. Future career prospects may include moving into a general management role.

Please send career and personal details quoting reference F/709/E to Denis Evans.

Ernst & Whinney
Executive Recruitment Services
Becket House, 1 Lambeth Palace Road, London SE1 7EU.

SENIOR CORPORATE ACCOUNTING MANAGER

City | Age 30-35 | c£35K + Car + Outstanding Benefits

At this major Securities House, extraordinary creativity, expertise and financial strength are dedicated to meeting the diverse financial needs of corporations, institutions, governments and individuals throughout the world. To every situation they bring an exceptional combination of human and financial resources, providing a perspective that reaches beyond any single transaction.

Due to internal promotion they are currently looking to recruit a senior manager with such breadth of vision. Responsible for the co-ordination and management of an extensive accounts department it is essential that applicants have proven hands-on man-management skills.

Reporting to the Director of Accounting, other pre-requisites of this position include:

- strong presentation skills
- exposure to budgeting/cost control
- systems awareness
- an innovative and pro-active approach.

In order to meet this challenge you are likely to be in your early 30's, a qualified accountant who is currently working in an environment where deadlines are critical and staff motivation and commitment essential.

The ability to adapt and operate in a fast-moving environment is more important than sector knowledge.

Interested applicants should contact Richard Parnell by telephone on 01-437 0464 or write enclosing brief details to the address below.

ROBERT • WALTERS • ASSOCIATES
RECRUITMENT CONSULTANTS
Queens House 1 Leicester Place Leicester Square London WC2H 7BP
Telephone: 01-437 0464

APPOINTMENTS ADVERTISING
Appears every Wednesday and Thursday
for further information call 01-248 8000

CJA

RECRUITMENT CONSULTANTS GROUP
3 London Wall Buildings, London Wall, London EC2M 5PJ
Tel: 01-588 3588 or 01-588 3576
Telex No. 887374 Fax No. 01-256 8501

A demanding appointment – scope for profit sharing. Opportunity exists to become Financial Director in 12-24 months or to run an overseas operating company.

ALPS

FINANCIAL CONTROLLER

LONDON | £32,000-£45,000

INTERNATIONAL TRADE AND FINANCE AND MANUFACTURING GROUP – SUBSIDIARY OF A WORLD-WIDE GROUP

This vacancy calls for accountants who think commercially, qualified either A.C.A., A.C.C.A. or A.C.M.A., aged 32-40 who will have achieved at least 7 years commercial/industrial accounting experience and at least 2 years as a Commercial Controller in an organisation utilising modern financial control methods. The responsibilities are widely drawn and will cover integrating newly acquired companies into the Group in the U.K. and overseas ensuring financial information costing systems are streamlined and cash flow information, business plans, forecasts and budgets are produced, through a small team. In the first year between 15-25% overseas travel will be necessary. The ability to play a key role in the corporate development of this organisation is important. Initial salary negotiable, £32,000-£45,000 + car, free life assurance, family BUPA, non contributory pension, permanent health scheme, commercial health cover and assistance with removal expenses if necessary. Applications in strict confidence under reference FC167/FT, to the Managing Director: ALPS.

ADMINISTRATION MANAGER – PERSONNEL

A further vacancy exists in the above organisation, calling for 7 years administration experience, aged 32-45. Salary negotiable, £18,000-£28,000 + similar fringe benefits. Applications in strict confidence under reference AMP344/FT, to the Managing Director: ACP.

3 LONDON WALL BUILDINGS, LONDON WALL, LONDON EC2M 5PJ. TELEPHONE: 01-588 3588 or 01-588 3576. TELEX: 887374. FAX: 01-256 8501.

FINANCE MANAGER

A Leading Role in Financial Services

Part of one of the UK's largest plc's, this major group of finance companies has an extensive product range including leasing, personal loans, mortgages and hire purchase. With a continually expanding national branch network, growth in profits has been outstanding and is anticipated to continue.

Ambitious development plans are being pursued, which include new product introductions, a major investment in new systems and a number of possible acquisitions. Accordingly, an additional senior position has been created for a qualified Accountant seeking to make a significant contribution to the business.

An entry point to the Group, the Finance Manager will work closely with the Finance Director and control a department of 16 staff. Handling financial and management accounting, including exposure to offshore funds, the position offers significant input into systems development and implementation and responsibility for the total reporting function.

The successful candidate will have a sound accounting background and be seeking a highly commercial organisation in which to develop. Previous exposure to the finance industry would be advantageous but is not a prerequisite.

Please apply directly to Mark Ehrlich at Robert Half, Freepost, Walter House, Bedford Street, 418 The Strand, London WC2R 0BR. Telephone: 01-836 3545, evenings 01-556 3615.

Financial Recruitment Specialists
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ROBERT HALF

OPERATIONAL AUDIT MANAGER

Central London c.£40k + Car

Our client is a major force within the UK retail and leisure industry, having a turnover in excess of £1.5b.

The function of the audit department is to give comfort to the company's executive on the management and control of autonomous business units.

An experienced manager is required to head up a sizeable audit department of qualified staff reviewing systems and controls throughout all business areas and appraising strategic issues.

Preferred applicants will be Chartered Accountants aged around 35 from one of the major professional firms, with a strong audit background ideally with a retail and distribution bias. It is essential that applicants have a good commercial approach and the credibility to deal with senior management and to progress to a senior line position within three years of appointment.

Please send career and personal details quoting reference F/729/A to Carrie Andrews.

Ernst & Whinney
Executive Recruitment Services
Becket House, 1 Lambeth Palace Road, London SE1 7EU.

Ambitious Young Accountants

Aged 24 to 30

£18,000 *to* £25,000 + *Car*

LONDON AND VARIOUS LOCATIONS

to join the fast-track management team of a recently reorganised manufacturing and trading group operating semi-independently within a £2 billion UK food industry organisation, which is itself growing and eminently profitable.

The appointments call for the full range of accounting skills, financial planning and control, budgets, cash flow, computer systems development and the preparation of periodic and final accounts against critical time schedules.

Success will earn promotion, either in finance or into general management; career prospects are implicit within the organisation chart.

Candidates must be qualified accountants who can offer several years' relevant experience, either in industry or commerce, or within the profession.

Large company benefits include relocation, if appropriate.

Please write – in confidence – to W. J. O. Michie, quoting reference B 32839.

MSL International, 32 Aybrook Street, London W1M 3JL.

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MSL International

OUR TOP FIVE

CHIEF ACCOUNTANT - C. LONDON c£34,000 + car + mortgage
Age to 40 = Insurance management.
Broad range of responsibility for an ACA in this high profile role.

PROJECT ACCOUNTANT - KENT £27,000 + car
Age 27/38 = F M C G
Reporting at board level, will liaise with companies throughout this growing group.

ASST. GROUP FINANCIAL CONTROLLER - SUSSEX £26,000 + car
Age c.35 = leisure and travel.
Good opportunity for ambitious accountant who can relate to the industry.

FINANCIAL CONTROLLER - E. LONDON £25,000 + car
Age 25-33 = food group.
Reporting to M.D. of this growing food group with USM aspirations.

SENIOR COMPUTER AUDITOR – C. LONDON. £27,000 + car
Age immaterial = Blue chip plc.
Newly structured role to develop and manage the computer audit function throughout the group.

FOR FURTHER INFORMATION ON THESE APPOINTMENTS OR TO RECEIVE OUR OCTOBER FREE VACANCY LIST (REF FT1)
Covering qualified positions in industry and commerce.
Locations, London, Home Counties and U.K.

F.T. Partnership
70 Old Broad Street, EC2M 1QS
Telephone 01-623 1053 (24 hour)

F.T. Partnership

FINANCE DIRECTOR

Expanding, listed U.K. Company, with diverse multi-national interests seek a Finance Director. Mature candidates are welcome to apply for the position.

For further details please write, including C.V., to;

Beavis Walker
Chartered Accountants
14 Southampton Place
London
WC1A 2AJ

Move out of London

Professional UK Network c.£30,000 + car

An innovative, imaginative Financial Controller is sought by our clients who have an exciting, growing business which is in the throes of a major change process. Turnover has doubled in two years from acquisitions and organic growth. This new appointment will assist with improving the infrastructure required to realise an agreed business strategy, including further substantial growth.

As one of the top ranking regional solicitors, the client's Head Office is based in East Anglia. The finance function will be controlled by the successful candidate who in turn will report to the practice's Chief Executive.

An ambitious qualified accountant aged late 20's to late 30's, would find this an excellent career move. Alternatively an appropriately experienced older candidate with the enthusiasm to respond to the needs of managing change could find the role attractive. In either case one would be implementing change with guidance from a highly experienced business strategist together with a very forward looking management team of partners.

Please write, in confidence, with adequate details, to Peter Willingham quoting ref PTW 087, at Spicers Executive Selection, 13 Bruton Street, London W1X 7AH.

SPICERS EXECUTIVE SELECTION
A MEMBER OF SPICER & OPPENHEIM INTERNATIONAL

OPERATIONS DIRECTOR

NORTH WEST. To £35,000

Our client is a rapidly developing subsidiary of a highly successful international Group which markets, sells and distributes capital equipment and supplies. A Board level opportunity has arisen for a qualified Chartered Accountant who has been involved with managing the wider commercial aspects of a business, especially D.P. and general administration. This is an exciting role for someone in their mid-thirties who now wishes to make a genuine contribution to the commercial direction of the business. As well as being involved with strategic and tactical matters as part of a small team, you will have day to day responsibility for accounts, D.P., Company secretariat, warehousing, distribution and general administration.

The salary package will be up to £35,000, with a fully expensed car, private medical insurance and other benefits associated with a position at this level.

Send your full C.V., together with details of current salary etc, to: Miss Keenan, ARA Advertising, Cresta House, 17-19 Maddox Street, London W1R 0EY.

ARA ADVERTISING

Finance Director

SW ESSEX, £40,000 + BONUS + CAR

SILCOCK EXPRESS LIMITED is a dominant market leader in the national vehicle distribution industry, and the largest member of a UK based European group. It is profitable and has grown strongly in recent years to approach a turnover of £40m. Further growth and business diversifications are planned.

A key to the company's success is the strict adherence to sound business principles. Consistent with this, to strengthen the management team, the company now wishes to recruit a strong and effective Finance Director to ensure appropriate financial disciplines are followed. As a member of the Board you will be required to actively contribute to the commercial direction and management of the company, and in due course be capable of taking on a general management role.

You must be a Chartered Accountant, aged mid to late 30's, with a progressive record of commercial achievement in the distribution field or industry in general. The need to influence and advise colleagues within this 'hands on' environment calls for a person of some stature in addition to well developed interpersonal skills.

Résumés, with daytime telephone number please, to Chris Haworth, Ref. CH964, Coopers & Lybrand Executive Resourcing Limited, Shelley House, 3 Noble Street, London EC2V 7DQ.

Executive Resourcing — Coopers & Lybrand

Finance Controller

agc

Cambridge

c £28,000 + car and stock options

Agricultural Genetics Company was formed in 1983 to develop and market worldwide opportunities in agricultural biotechnology. Backed by both corporate and institutional funds the company is achieving significant commercial success.

Continuing growth demands the appointment of a Finance Controller to take responsibility for all corporate finance, accounting, legal, secretarial, statutory, tax, treasury and computer activities. This key position reports to a main board director.

Applicants should be chartered accountants with 3-5 years post qualification experience gained either in industry or public practice at management level. Strong technical ability is essential for this demanding and varied role. Personal qualities must include excellent presentation and communication skills supported by keen commercial awareness and the essential self motivation to operate in a small fast moving team environment.

The company offer an excellent remuneration package which includes stock options, company car, pension and medical insurance. Relocation expenses will be provided where appropriate.

Intended applicants should write to John Sheldrake enclosing career details to John Sheldrake Associates, Hall Keeper's House, 42 Castle Street, Cambridge CB3 0AJ, Telephone 0223 313791 (Fax 0223 60366).

John Sheldrake Associates
Executive Selection & Search

The career move for a young accountant....

Management Accountant

London — West End **£20,000 + Car**

A recently qualified accountant is sought by the Head Office of a major international engineering and high technology Group. This is an exceptional opportunity to gain invaluable experience within a small, multi-talented finance department at the corporate centre of this prestigious international group.

Your main responsibilities will include the preparation of the Group's management accounts, budgets and forecasts to strict reporting deadlines. This involves considerable contact with operating companies worldwide, monitoring their reports, providing analysis and requiring familiarity with computers. Experience of foreign subsidiary reporting would be an advantage, and a practical commercial outlook is essential to undertake this role effectively.

Interested applicants should write enclosing a comprehensive Curriculum Vitae and daytime telephone number, quoting Ref: 265, to Barry Ollier BA, ACA, Whitehead Rice, 295 Regent Street, London W1R 8JH, or telephone him on 01-637 8736.

Whitehead Rice

MANAGEMENT SELECTION

FINANCIAL INVESTIGATIONS

London/Manchester

to £40,000 + Car

Our client is one of the leading firms of International Chartered Accountants with an established and expanding investigations department which enjoys a high reputation within the business community. They now seek senior managers for both the London and Manchester practices. A full range of services is provided to clients, which include:—

- ★ Full listings, USM and Third Market flotations;
- ★ Acquisition investigations;
- ★ Management buyouts;
- ★ Working capital reviews;

involving work both in the UK and abroad, particularly the United States.

Reporting directly to partners, candidates should be Chartered Accountants aged circa 28-33, with substantial relevant experience and well developed personal skills.

Our client can offer the following:—

- ★ The opportunity to progress to partnership;
- ★ Continuing contact with a diverse clientele;
- ★ An interesting and challenging workload;
- ★ The stimulus of colleagues of high calibre;
- ★ A highly competitive salary package.

*For further information please telephone **John Fraser** or **James Cozens** on **01-629 4463** (evenings/weekends **01-226 1579** or **0256 469940**), or alternatively write to them, enclosing a full cv, including current salary details, at the address below.*

HARRISON WILLIS
FINANCIAL RECRUITMENT CONSULTANTS
Cardinal House, 39-40 Albemarle St., London W1X 3FD. Tel: 01-629 4463.

ACA with marketing & negotiating flair

c. £24K plus 2 litre car and Banking Benefits

Barclays Mercantile Highland Finance is the leading agricultural finance company in the UK, with aims of being a leading european force by 1992. We got there simply by taking the trouble to find out what our customers' real problems were, and what they really wanted.

We are looking for someone in the mid to late twenties, with at least two years post-qualification experience. If you are the right person, you are looking for a job that offers something different — a job as a key figure in our marketing team, involving contacts at many different levels inside and outside the company. You would be responsible for negotiating financial packages with leading City institutions, amd would also play a key role in the pricing and financial construction of new products. This is a great opportunity for personal development.

You will be expected to demonstrate sound technical ability and good communication skills. You will need self-confidence and motivation, because we shall be looking to you to contribute significantly to the achievement of our financial objectives.

The career opportunities we can offer are second to none. After 2 or 3 years you would have the option of either moving back into a senior line accountancy role or simply developing on to bigger ventures. With a group like Barclays behind us, you will have numerous choices.

Our employment package includes a non-contributory pension scheme and — after a qualifying period — a subsidised mortgage.

If you are interested in any of these positions, write with a cv to Daryl Howe, Personnel Manager, Barclays Mercantile Highland Finance Ltd., Elstree House, Elstree Way, Borehamwood, Herts WD6 1DW. Or ring him on 01-207 4488.

BARCLAYS MERCANTILE
Highland Finance
A Mercantile Company

Career and Lifestyle
In the West you get the best of both worlds

•ACCOUNTANTS•

c£24,000 + car scheme + relocation

Our client is a service-based organisation in the West Country which is committed to meet the challenge of a population and economic growth rate above the national average which is projected to increase well into the next decade.

Its present turnover is £103 million with a capital investment programme of £60 million.

In order to take advantage of this growth and maximise profit, our client requires Accountants to assist in reviewing the Company's strategic planning, operational and management information systems, capital investment planning and project appraisal, pricing policy and the expansion of commercial enterprises.

You will need to be a fully qualified Accountant with a minimum of 2-3 years experience in an industrial or commercial environment. You will be fully conversant with computerised financial systems. A degree in mathematics, economics or business management would be an advantage.

The opportunities that exist in the West Country, for Accountants, will enable you to further your career prospects and also to enjoy the benefits of living in one of the country's most attractive regions. The coast is always within easy reach and improved road and rail links allow good access to other parts of the country.

In return we offer a competitive salary and a good benefits package, pension arrangement and car scheme.

If you think its time your career matched your lifestyle please write with full personal and career details to Doug Alexander or David Dodd at MSL International, 4th Floor, Broad Quay House, Broad Quay, Bristol, BS1 4DJ. Telephone Bristol (0272) 276617.

MSL International

The Short, Hard Way to the Top

This Company's growth over the last few years has been nothing short of dynamic. In fact they have doubled their size each year. Their development, based upon the entrepreneurial spirit, has been almost exponential, creating a business atmosphere of expectation and excitement, where almost any success is possible. To support this dramatic expansion, they are now looking for someone who will play a key role in their future. Your own future within this exciting enterprise will be guaranteed by your own enthusiasm and flexibility.

Chief Accountant c.£25K + car Surrey

We're looking for a qualified person (ACA or CACA), 27-40, initially to take charge of the accounting function.

Reporting directly to the Financial Director, you will be involved in the production of monthly management accounts, annual financial statements and quarterly/annual returns to the Department of Trade and Industry. Previous insurance accounting experience would be useful but not essential.

You will lead a team of ten staff, two of whom are qualified accountants. Therefore, some previous experience at this level of management and control will be considered a positive advantage.

As you will have gathered our Client is a young but rapidly expanding company, where individuals' careers are limited only by their own abilities and enthusiasm. To take advantage of this starting point for a particularly rewarding career, please send a full CV to: Antony Harris, Managing Director,

Samuel & Pearce Recruitment Ltd.
Recruitment Advertising
Academy House, 26-28 Sackville Street, London W1X 2QL. 01-439 4581.

TREASURY — YOUR FIRST STEP TO SUCCESS

NEWLY/RECENTLY QUALIFIED ACCOUNTANT

Salary c.£24,000 Company Car

Based at prestigious head office, located in Amersham, Bucks

A vigorous, intelligent and committed young professional is sought by this international public group with a turnover of c£170 million, for a high profile appointment offering immediate challenge and responsibility.

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If you would like to be considered for this exceptional opportunity, please write briefly enclosing a curriculum vitae or telephone for a personal history form, in either case quoting ref. 5998, to Carol Newberry who is advising the company on this key appointment.

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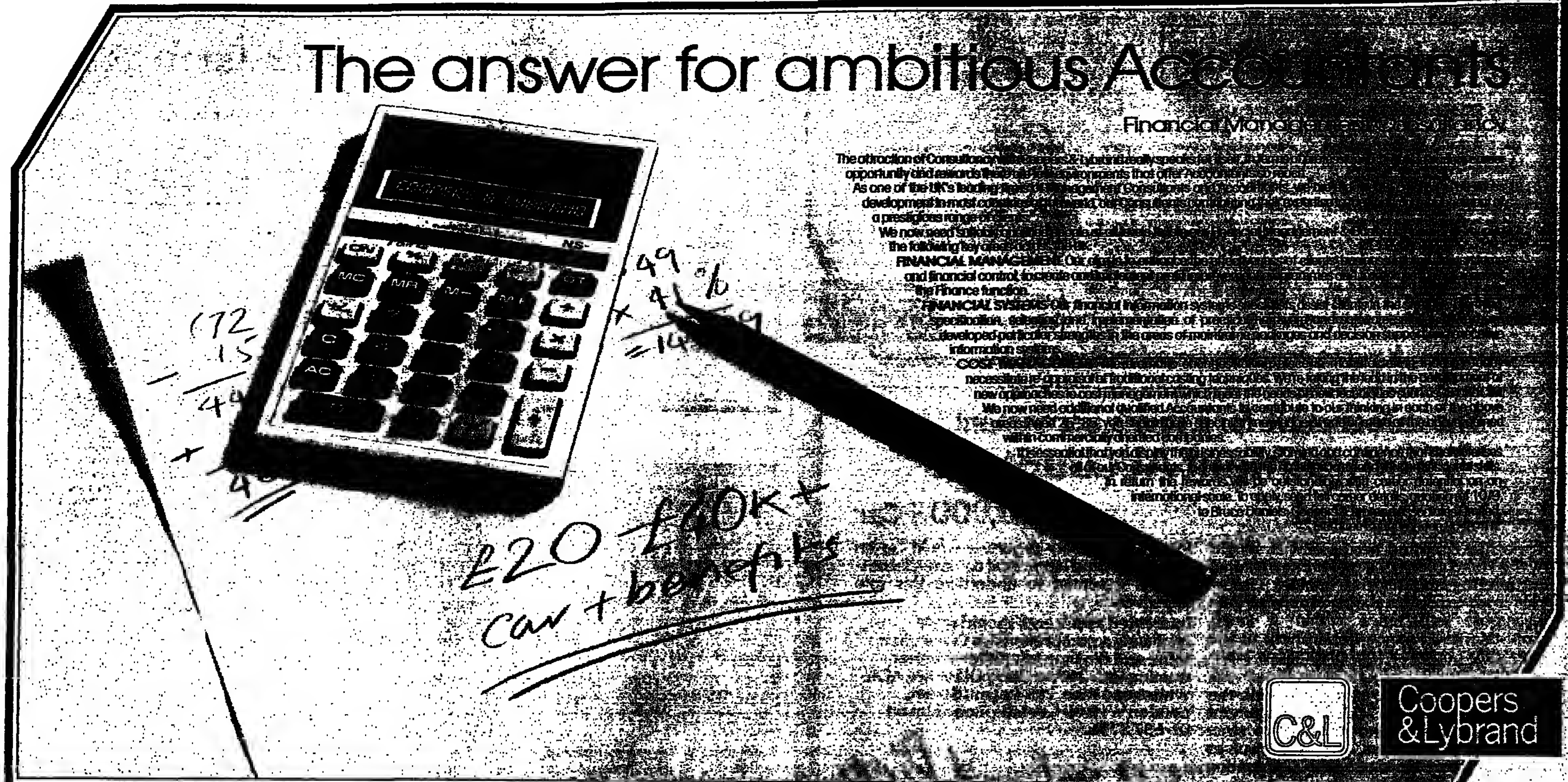

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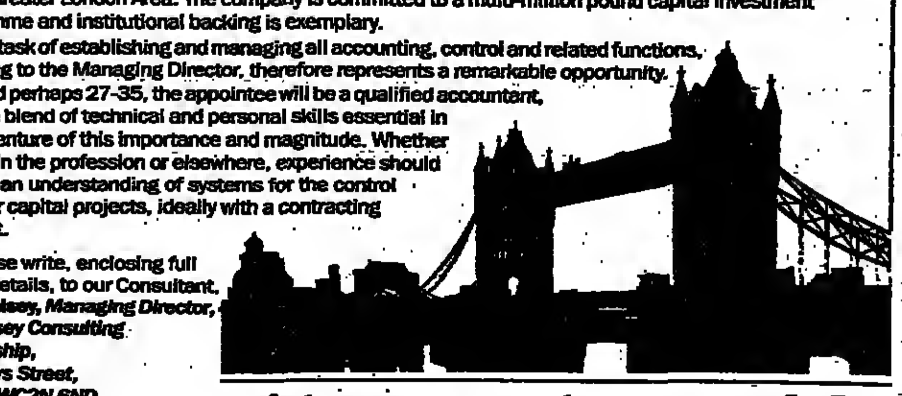

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SECTION III

FINANCIAL TIMES SURVEY

Despite last year's stock market crash, management buy-out deals are still increasing rapidly in number, fuelled by stiff competition among investment institutions. The worry now is, reports Charles Batchelor, that pressure of money may lead to buy-outs at any price.

Management Buy-Outs

CONTENTS

A flood of finance

TIMES HAVE never been better for the frustrated British manager keen to stage a buy-out of the business he is running. Competition among the banks and venture capitalists to lend him the finance is intense and if the boss will not sell to him he can drop the idea of a buy-out and look for a company to buy into. Buy-in finance too has never been more readily available.

For the investors which finance buy-outs and buy-ins life has grown correspondingly tougher. Buy-out teams are in a strong position to negotiate deals in their own favour; the returns available to the financiers are starting to drop; and the risks are increasing as more and more loan finance is balanced on relatively smaller amounts of equity.

"Investors are being squeezed by managements to the point where deals are not worth doing," complains Mr Hugh de Quervain, managing director of Midland Montagu Ventures. "Some deals are being structured with ratchets (arrangements which reward the management with more equity if performance targets are met) which mean that even if the company doubles its profits the investor gets no benefit. It's absolutely incredible that these deals are being struck. I suspect investors do not know what ratchets mean."

"The buy-out market has become as competitive as merchant banking in the 1960s, syndicated loans in the 1970s and equities in 1980s," notes Mr Michael Bentley, chief executive of Electra Investment Trust.

The measure of that competition has been the rapidly increasing number of deals which have been completed in recent years. From just 13 deals worth a few million pounds in 1977 the numbers rose to 300 deals worth £2.82bn in 1987.

The stock market crash of October 1987 has dampened interest in the very large deals and the £715m buy-out of MFI, the furniture retailer, just before the crash remains the largest UK buy-out to date. But large numbers of smaller deals have been completed this year and in the the first nine months of 1988 210 deals worth £2.33bn were recorded by accountants Peat Marwick McLintock.

Buy-outs are also becoming increasingly attractive to the directors of UK public companies disillusioned with their poor market rating in the wake of the stock market crash. Mr Richard Branson last week announced the details of a £248m buy-out of Virgin Group which obtained a public listing less than two years ago.

In the US leveraged buy-out activity is also increasing sharply again after the slow-down indoced by the stock market crash. Deals worth $39bn have been completed so far this year compared with $38bn in the whole of 1987.

In the UK, the flood of buy-out finance comes from two sources. Venture capital organisations, which in the US do not get involved in buy-outs, have increasingly switched their attention away from start-up and early stage financing towards buy-outs. Buy-outs may offer lower returns (though some buy-out specialists dispute this) but the rewards are surer and will come through more quickly.

At the same time a range of British institutions as well as the London-based branches of American banks have shown an increasing interest in buy-outs. Development capital groups such as Phildrew Ventures and Foreign & Colonial Ventures recently raised more buy-out finance while new American players such as Drexel Burnham Lambert, the US junk bond specialist, and GE Capital, General Electric's finance arm, continue to flock to London.

Profitable deals may have become harder to find but there is no sign of an end to the influx of keen investors to the buy-out scene. There are still very good returns to be made by the providers of both equity and loan finance. And the buy-out teams do not have things entirely their own way. The managers of Parker Pen, like the other investors, made a good profit when their company was sold to Pentland Industries in September but they did have to accept an earlier-than-expected end to their company's independence.

The worry in the industry is that the pressure of money looking for a home may lead to buy-outs being put together at any price. In the longer term, if the economy deteriorates, the bought-out companies which are not properly financed might get into difficulties.

Buy-outs in Britain have traditionally been financed much more conservatively than their counterparts in the US, which depend far more on the rapid disposal of unwanted assets to survive. Typical debt-to-equity ratios in the UK have been 3 or 4:1 compared with 9:1 in the US.

But UK gearing levels are now starting to climb to meet managements' desire for greater leverage on their equity and the debt investors' desire for income rather than capital gains in current depressed stock market conditions.

Buy-outs still represent a very safe investment, particularly for venture and development capital organisations like 3i which expects one in three of its start-up and early stage deals to fail compared with just one in ten of its buy-outs.

Nevertheless, UK investors have taken note of the problems in the US of Revco, a large drug store chain, which in July became the first US buy-out to file for protection from its creditors. Less than 19 months after being taken private in a $1.3bn leveraged buy-out Revco sought protection because of the unduly ambitious growth and profit projections built into its financing.

The British buy-out community has avoided such embarrassments but rising UK interest rates could cause problems. Some deals which have been contemplated will not go ahead while completed buy-outs will take longer to achieve the targets set in their business plans.

Some protection against interest rate increases are provided by arrangements known as "caps" which set a ceiling on interest payments. These caps usually last for one to two years so buy-outs of that vintage will be affected shortly. More recent deals will be protected unless interest rates remain high for a long time.

As the buy-out has increased in popularity and profits to investors have come under pressure, the deal-makers have diversified into buy-ins. These involve an outside management team taking control of a company with the help of financial backers. Since the buy-in management team is not familiar with the company the risks of failure – and therefore the rewards of success – are much higher.

When 3i announced recently that it was looking for 200 managers prepared to stage a buy-in it was swamped with 700 replies. The buy-in concept has clearly caught on.

What the buy-in trend has done is to shift the onus for putting the deal together away from the management towards the financier. The investors were anyway starting to play a more active role in putting together buy-outs but the growth of the buy-in confirms this trend. This represents a move towards the US practice in which buy-out specialists arrange deals for their financial rather than their industrial logic and managers are only involved at a later stage.

A second US financing technique which is gaining ground in the UK is the use of mezzanine finance in buy-outs. This form of high-yielding, unsecured loan funding is increasingly being employed to bridge the gap between equity and secured debt in deals.

About £110m of the £1bn worth of buy-out finance that has been provided by 3i is in the form of mezzanine, says Mr Ewen Macpherson, head of 3i's City office.

But despite the increasing willingness of UK institutions to provide mezzanine, Drexel Burnham Lambert and GE Capital believe there is a gap to be filled. Mr Rodney Hall, head of GE Capital's London operations says he is prepared to provide sums of up to £200m of mezzanine to finance individual deals.

"We hope the mezzanine market will develop," says Mr John Burgess of Baring Capital Investors. "It would make deals easier." He attributes the slow development of mezzanine funds in the UK to the lack of e domestic corporate debt market which means institutions have no experience of evaluating that form of debt.

If a public market for mezzanine debt develops in Britain the prospects for far larger buy-outs being done will increase, some deal-makers say. If institutions knew that investing in a buy-out did not mean they were locking themselves in for three to five years they would be more prepared to invest, this argument goes.

In setting up in London, GE Capital, like many other US groups before it, hopes to establish a base for operations not just in the UK but throughout Europe. It plans to carry out cross-border deals – involving companies with operations in more than one country – from London and also plans a Paris offices within the next two years.

The attraction of continental Europe lies the fact that in many counties the buy-out technique is not highly developed and the opportunities for profitable deals are greater.

France and the Netherlands do have sophisticated buy-out markets though there is scope for further growth while Spain and Italy have even greater potential. Germany has proved a difficult market with the German banks resisting what they see as an attempt to upset traditional client relationships. But a number of British buy-out groups with offices in Germany are hopeful that their persistence will pay off.

If the profitability of British buy-outs comes under further pressure the incentive to move overseas can only increase.

The buy-out industry has developed its own jargon, **Charles Batchelor** explains

Ratchets, leverage, lemons and plums

MANAGEMENT buy-out financing has become a separate part of the financial services industry largely independent of the venture capital industry from which it has sprung. The following is a glossary of the technical terms used in structuring buy-out deals and some of the related venture capital terminology.

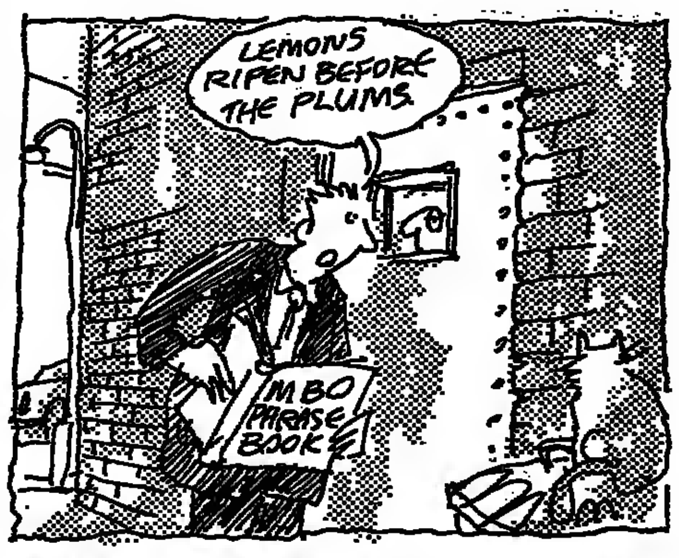
Bridge financing – short-term funding for a company which is on the point of raising a new round of equity or about to go public.

Captive fund – a venture capital fund which is part of, or owned by, a larger financial services group and which does not raise funds on its own account.

Corporate Venturing – practiced on a small, but growing, scale in the UK, this is when a large corporation buys shares in a small company, either directly or through a venture capital fund. The idea is to allow the big company to get involved in new areas while at the same time sharing the costs with another partner.

Cylinders – clauses in buy-deals which limit the extent to which the interest rate charged on borrowed funds can rise or fall. A safeguard against borrowing costs rising to the point where they endanger the company. The upper limit of a cylinder is known as a "cap", the lower limit as a "collar".

Deal flow – the rate at which investment propositions come to venture capitalists. Many claim to select only one in 50, though deal-flow numbers are sometimes inflated as a virility symbol.



Development capital – later stage finance for more established companies which are profitable or nearly profitable. Less risky generally than early-stage finance.

Due diligence – detailed analysis and appraisal of the background of the entrepreneur and his business plan.

Earn-out – a formula by which the managements are encouraged to perform better by paying on the basis of future performance.

Exit – the point at which the venture capitalist sells his holding in the buy-out company either through a stock market flotation or a trade sale to a large corporation.

Gearing – borrowings as a percentage of shareholders funds. If you have borrowed £800,000 from the bank and with your backers put £1m into the business, your gearing is 80 per cent.

Hands-on/pro-active – a hands-on investor aims to add value to his target company by participating in its management, usually as a non-executive director.

IRR – stands for Internal Rate of Return. Different people work this out in different ways but it usually means the average annual rate of return to the investor over a given period, including dividend distributions and realisation profits or the profits shown on a fair valuation of the buy-out company.

Lead investor – venture capitalist with the largest share in a syndicated investment. He usually initiates the deal and takes a hands on role on behalf of the other partners.

Lemons and plums – bad investments usually go wrong before the good ones produce a profit. In the jargon, lemons ripen before the plums.

Living dead – this refers to companies which are just about trading profitably but which are unlikely to do really well. A slightly dated term from the industry's early buccaneering days.

Leveraged buy-out – similar to a management buy-out though usually applied to US deals where the transaction will have been initiated by a financial group rather than management. The name refers to the high levels of borrowings these companies take on, using the assets being purchased as leverage.

Management buy-in – an offshoot of the management buy-out industry. The purchase of a business by one or more outside managers with the help of a group of financial backers. Riskier and hence more lucrative for the backers.

Management buy-out – the purchase of a business by its existing management with the help of a group of financial backers. The managers put up a relatively small sum to finance the deal but gain a disproportionately large share of the equity if all goes well.

Mezzanine finance – unsecured loans which rank after senior debt but before equity in the event of the company failing. To compensate for the greater risk to the lender, it usually earns interest one to three percentage points above secured loans and often carries an equity "kicker" to give the lender a stake in the equity.

Portfolio approach – usually taken by hands-off investors, this entails creating a balanced portfolio of companies in varying sectors and at different stages of investment in the hope the overall performance will be good.

Ratchet – an incentive arrangement whereby the managers get a bigger share of the equity if the venture performs well. Sometimes managers forfeit shares if they do particularly badly.

Replacement capital – a euphemism for cashing in one's chips. When an entrepreneur sells some of his shares to raise money or because he wants to leave the cash he receives is replacement capital.

Second round finance – the funds a company needs to take it onto the next stage of growth. Usually products will have been launched and the company wants to finance new products or expand its market.

Slippage – this is what happens when the buy-out company starts to eat up more cash than expected because development costs proved higher or sales grow too slowly.

Sponsored spin-out – an investment where a new company is formed, part-owned by a venture capital company, a management team and the previous parent company. The new company is set up to exploit new developments or fresh market opportunities.

Star – a company which is so successful that it pays for all the failures in a venture capitalist's portfolio many times over.

Syndicated investment – an investment which is too large and risky to be handled by one investor and which needs to be shared among several partners.

Venture capitalist – hands-on venture capitalists describe it as the concept of adding value to investments by participating in the management and offering advice. Those with a hands-off approach use the wider definition of risk investment in unquoted companies with high growth potential.

FINANCE

Big attractions for investors

GE CAPITAL, a financial subsidiary of the US group General Electric, last month became the latest company to enter the market for the financing of UK management buy-outs.

GE has plenty of company. Such has been the success of MBOs that banks and investment institutions have had a problem finding deals to finance and have resorted knocking, eagerly, on management's doors. Last year, some estimates say that £5bn of funds were available for UK MBOs; the value of the deals completed was only £3bn.

Mr Tony Berry, the chairman of Blue Arrow, recently revealed that a group of US financial institutions had offered him the funds for an MBO although it is unlikely that he will take up the offer.

The stock market crash, which has left many share prices well below their earlier levels, has made the buy-out sums look even more attractive to investors. And if investors needed any reminding of the profit potential in MBOs, they have just had to watch the new issues market. In the first half of this year a quarter of all stock market listings were former MBOs, as investors cashed in on their early successes.

Failures are still quite rare. 3i has said that it expects only one in ten of the buy-outs it funds to be unsuccessful. Until that ratio increase, the roster of potential buy-out investors is likely to increase.

In 1986, according to the Centre of Management Buy-Out Research, 147 separate equity investors backed buy-outs in the UK. Amongst the most significant players in the UK are the venture capital groups, like Schroder Ventures and Charterhouse Development Capital.

The British MBO market has tended to be centred round small, private companies and subsidiaries of large companies where venture capital expertise can come in handy. In the US, by contrast, many MBOs have involved highly-leveraged deals involving breaking up large companies for their asset value.

Ms Susan Lloyd, managing director of Venture Economics, recently wrote, in a Euromoney book on management buy-outs, that MBOs accounted for 44 per cent of all the funds invested by venture capital organisations in 1986.

Apart from Schroder and Charterhouse, the leading investors, according to the Centre, were Barclays Development Capital, CIN Industrial Investments, Citicorp Venture Capital, County NatWest Ventures, Electra Investment Trust, Investors in Industry (3i), Midland Montagu Ventures and Prudential Venture Managers.

The list shows that the big financial institutions dominate the market. Apart from the three British and one US (Citicorp) clearing bank funds, CIN is backed by one of Britain's largest pension funds, British Coal and Prudential Venture Managers is part of the insurance company group.

But even with the big institutions involved in the market, the increased size of UK buy-outs now means that many deals are financed by a syndicate of investors. For example, the recent second buy-out of Maccess, the cash and carry automotive parts group, was financed by a group of four investors, County Nat West Ventures, MIM Development Capital, 3i and Standard Chartered.

Deals as large as the MFI buy-out obviously require the participation of a wide circle of investors. A group of five institutions subscribed for £190m of equity in the MFI deal and seven acted as underwriters to the £485m of senior debt financing.

The growth of the market has meant that a large number of specialist buy-out funds have now been established. For example BZW set up the Barclays de Zoete Wedd Buy-out Trust, a £20m fund designed to sit alongside Barclays Development Capital.

The US banks have obviously been keen to grab a share of the UK market, although deals are still not as highly leveraged as those in America. Bankers Trust has been involved in buy-outs such as the Rover Group's sale of Leyland Bus and Harry Goodman's International Leisure Group. Citicorp's prominent position in the market has already been mentioned and other active US banks include the First National Bank of Boston and Security Pacific.

However, everything in the MBO market is not always rosy. When Parker Pen attempted to float on the UK stock market in June, the group's venture capital investors clashed with its broking advisers.

The brokers responsible for the float were not prepared to back the high market capitalisation placed on the company by its investors. The latter wanted to sell 25 per cent of the company for nearly as much as the whole of it had been valued less than three years previously.

In the event the float was abandoned and Parker Pen was acquired last month by Pentland Industries.

It may be that the management buy-out boom will over-reach itself and investors' greed will prove self-defeating. What may also happen is that the buy-out focus will shift to the public companies such as Richard Branson's Virgin which now plans to go private, lock, stock and barrel.

It may be harder to see the potential for profits in buy-outs where the main motivation seems to be disillusionment with the stock market.

But for the moment there seems little dampening of MBO investors' enthusiasm.

Philip Coggan

Top equity investors

	Nos of MBOs invested in
3i	45
CIN	34
Electra	32
County Natwest	31
Citicorp	29
Prudential	27
Charterhouse	26
Midland Montagu Ventures	22
Candover	21
Lloyds	19
Globe	18
Kleinwort	18
Barclays	18
Schroder	15
Warburg/Mercury	15
Phildrew Ventures	14
Murray Johnstone	13
Legal & General	13
ECI	12
Foreign & Colonial	10
Bankers Trust	10
SUMIT	9
Norwich Union	8
SPHG Equity Ventures	7
Rothschild	7
Scottish Eastern	7

Source: Peat Marwick McLintock

Charles Batchelor on how to go about a buy-out

An exhilarating, frightening experience

THE MANAGEMENT buy-out has become such a popular method by which managers take control of their own business that it is easy to assume the technique is familiar to every self respecting chief executive and finance director.

The reality is that for most executives a buy-out is a once-in-a-lifetime experience which is at the same time exhilarating and frightening. Venture capitalists who fund many of the deals report anxious telephone calls from managers keen to buy out their company who admit to complete ignorance as to how they should go about it.

The number of successful buy-outs may have increased sharply over the past year or so but conditions have, if anything, become tougher for would-be buy-out teams.

Vendors, usually the parent company or the controlling family in the case of a private company, have become more aware that they can strike a hard bargain. The days when companies were happy to sell poorly-performing subsidiaries at below net asset value just to be rid of them are long gone.

Competition has also become more intense because there are growing numbers of rival teams of outside managers willing to stage a buy-in and of trade rivals prepared to make a competing offer. A trade buyer can frequently justify a far higher price than the managers could afford because of the benefits it can gain from integrating the purchase into its own operations.

So how should managers go about acquiring the ownership as well as management control of the company for which they work? What are the pitfalls they should look out for?

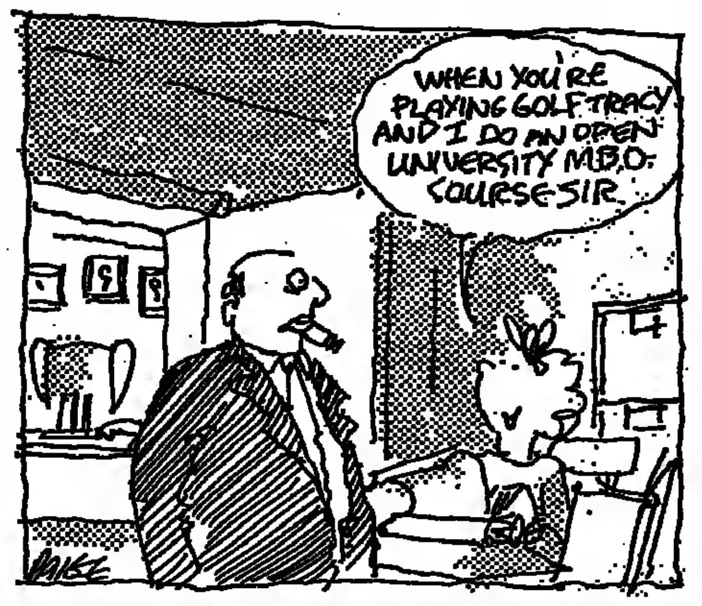
Firstly, a suitable buy-out team must be put together. It is likely to include the chief executive and finance director of the business though other skills, such as marketing and production, will also be required. The smaller the buy-out team the better. Experts suggest between two and six people is best so as to avoid disagreements within the team and speed up decision-making.

The team should establish at an early stage whether a buy-out is feasible. This avoids wasting time and money on fees to professional advisers.

The advisers themselves should be chosen for their previous experience in this area and they should be involved at an early stage. This might increase the the fees charged but could avoid basic errors at the outset and save money in the long run.

The accountancy firms have made a specialism of advising buy-out teams but lawyers and other financial consultants have also moved into this market. It is wise to check the details of previous deals which have been completed to see who has been involved.

The advisers may help the management team prepare the business plan which is needed to raise the finance, before referring the managers on to the venture capital groups and other City institutions which back buy-outs. Some venture capitalists warn however that the accountants and others are apt to judge the financier on the basis of how cheaply he will do the deal rather than whether he has any special skills which might prove useful in a particular situation.



The business plan should explain briefly how the buy-out opportunity arose and the aims of the buy-out team. It should provide profiles of the managers and details of their experience and qualifications.

The business itself must be described in some detail, covering its history, products, markets, competitors, technology, management structure and financial performance.

The plan should outline the managers' plans for the future including the areas of product development, market openings and the resources required to attain these goals. Financial projections should be made covering profits, cash flow and balance sheets for at least three years ahead. Finally, the managers should estimate the finance they will need, including the purchase price and capital needs of the independent business.

Above all, the specialists urge, be realistic. One investor reports turning down a buy-out proposal "because it relied on the whole industry 'coming to its senses' and refraining from price cutting for several years." Since the business was in a notoriously cyclical industry prone to bouts of fierce price-cutting this condition seemed less than realistic.

Many multi-million pound buy-outs appear to balance, like inverted pyramids, on minute quantities of the managers' own money. Despite their small investment (in relation to the other funds being provided) the managers often gain a substantial stake in the equity of the business.

Realistically, though, the amount the team invests must be large enough to demonstrate commitment and yet still allow the institutional investors a good return. A typical investment would be £200,000 with the amounts contributed by each individual rangings from £25,000 to £50,000.

Depending on the structure of the deal, the managers could expect to acquire anything between 10 and 60 per cent of the company although higher percentages have been known. Many deals involve 'ratchets' which allow the managers to increase their stake later if performance targets are met.

One of the most difficult tasks for the managers is dealing with their bosses. It is not unknown for managers who propose a buy-out deal to get the sack. They certainly face psychological pressures and the fear that, if the deal does not go through, their career prospects with the parent group may be harmed.

It is here, in negotiating with the vendor, that the independent adviser earns his money. He will not be concerned about npsetting anybody. One venture capitalist did such a good job of pointing out to the vendor the weaknesses of the business he was selling that the managers asked why he was helping them if the company was in such a bad way.

A cool, constructive approach to negotiations is best. Bluff and bluster are not recommended and threatening to resign and walk away from the business should be a desperate last throw. Do not make such threats unless you are prepared to carry them out, the professionals say.

The managers must be prepared for a long haul. Negotiations will almost certainly be spread over several months. At one moment they will be going smoothly. At the next they will appear near break-down.

Finally, when the months of negotiation are over, the real work starts. The managers must show that they can run their own operation outside the protective embrace of a large organisation. Many buy-outs have made their owner-managers rich men within a very short space of time. But the deals which go wrong, where managers are sacked or the finances restructured, bear witness to the risks involved.

BUY-INS

Value of strangers

WHEN 3i, Britain'a largest vantnre capital group, announced in June that it was looking for adventurous executives prepared to stage a management buy-in it was hoping to find 200 candidates. Four months later 3i has 700 names on its buy-in list and Mr Richard Summers, director in charge of the operation, is attempting to whittle the number down to a more manageable size.

The typical manager who has approached 3i is aged between 40 and 50 years and has had senior management experience with several companies. One university-educated executive in his mid-40s had spells in production and marketing with Procter & Gamble and Mars before going into a privately-owned company with the promise of a stake in the equity. When the equity failed to materialise he offered to take part in a buy-in.

Management buy-outs have attracted a great deal of attention in recent years as the number and the size of deals has increased. Buy-ins have probably been around for as long as buy-outs though they have only been marketed by the deal-makers as a separate, clearly defined phenomenon since the mid-1980s.

Researchers have identified eight deals each in 1982 and 1983, a drop to just five in 1984 and a sharp rise thereafter. In 1985 28 wera completed, increasing to 44 in 1986 and 72 last year. While the number of deals completed last year rose there was a fall in the total value, from £300m in 1986 to £275m, according to a recent survey by Midland Montagu Ventures.

Despite this increase in the number of deals done and the strong response to 3i's mass-marketing approach, buy-ins are tricky deals to pnt together. "We think tha upward trend my level off because of the sheer difficulty of getting them done," says Mr Hugh de Quervain, managing director of Midland Montagu Ventures.

Finding the right combination of an experienced and motivated manager, a suitable company and a willing vendor is more difficult than Midland Montagu originally thought, Mr de Quervain acknowledges. Only one in 20 of the managers who apply is suitable while a further one in 20 of all the deals his team seriously considers actually goes ahead.

Buy-ins share a number of common factors with the buy-out. They both involve a combination of an investor or group of investors, who provide the bulk of the finance, and a management team which takes an equity stake.

But whereas the managers in a buy-out come from the existing management team, in a buy-in they are usually strangers to the company, and they come in from outside. This places an extra premium on their management skills since they are not familiar with the problems the company is facing.

Both buy-outs and buy-ins usually inherit a heavy load of debt which must be paid off as rapidly as possible from profits.

The main requirements for a successful buy-in are:-

- A management team with a successful track record either in the same industry or in dealing with the specific problems facing the buy-in company. Experience of managing an antonomous business rather than just running part of a larger group is a bonus.
- A target company which is under-performing because of weak management with shareholders or an owner who is willing to sell out.
- An important advantage of the buy-in is the fact that, unlike a buy-out, the incoming managers cannot be accused of running the company badly when it belonged to somebody else but of performing much better when their own money is invested.

Despite the higher risks associated with bny-ins, 3i, which has led the majority of deals which have been completed so far, says it has had a very low failure rate. Only two of the 70 deals backed by 3i over the past two years have resulted in failure though it is too early to judge what the ultimate failure rate will be.

To compensate for the higher risks the investors expect a higher return. Venture capitalists would typically calculate a 30 to 40 per cent annual rate of return on a buy-out, 40 to 50 per cent on a buy-in and 50 to 60 per cent on a start-up though these are gross rates of return and the actual rate achieved will be lower.

The role played by the deal-makers in selecting buy-in managers and finding target companies suggests a move in Britain towards institutionally-led deals. Up to now the main difference between the UK-style management buy-out and the US leveraged buy-out has been that in Britain the initiators of most deals have been the managers not the institutions.

Mr Charles Gonsnor of Phildrew Ventures foresees this trend developing. Phildrew Ventures would be prepared to buy a company for its own account and then find managers to run it, he says.

Charles Batchelor

Larger Management Buy-Outs 1981/88

(Total funding in £m)

£m	1981	1982	1983	1984	1985	1986	1987	1988 (to date)
Under 25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-49		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
50-100		[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250						[illegible]	[illegible]	[illegible]
250+					[illegible]		[illegible]	[illegible]

Larger management buy-outs are taken as those with total funding of over £10m in 1988 values. UK MBOs are strictly so defined and exclude for example management buy-ins, leveraged refinancings and UK financed offshore MBOs.

Source: Peat Marwick McLintock

Unhappy about share prices, some companies are feeling . . .

The urge to go private

COULD THE management buy-out be about to take off as a means of taking public companies private? The continuing stock market malaise following the crash of October 1987 has prompted the managers of many public companies to think seriously about buying themselves out of their public misery.

Mr Richard Branson, chairman of Virgin, the entertainments group, last week announced the terms of a £248m buy-out of his company after less than two years as a public company which left him very dissatisfied with the share price. In August, Mr Tony Berry, chairman of Blue Arrow, the employment services group, had said he could get the funds needed to take his company private.

Venture capitalists and the funders of buy-outs report they regularly receive approaches from public company chairman interested in the idea. 3i says it is currently studying three proposals.

At first sight there is little to stop deals such as these going through. The venture capital/buy-out community is flush with cash; many companies are disappointed with their stock market rating; and the US, the source for many financing techniques which later take root in Britain, has been experiencing a leveraged buy-out boom.

The recent arrival of two new US players on the British buy-out scene – Drexel Burnham Lambert, which dominates the US junk bond market, and GE Capital, the finance arm of General Electric of the US – may signal a change. But so far British institutional investors have proved resistant to the charms of the public company buy-out.

Public company buy-outs appeared to get off to an auspicious start in early 1985 when institutions backed a £56m offer from the management of Haden, an engineering group, to buy out their company in the face of a hostile takeover bid from Trafalgar House.

But later that same year an unsuccessful attempt by the management of Molins, a manufacturer of cigarette-making equipment, to take the company private, showed the limits of the institutions' willingness to go along with these deals. The Molins' offer was judged ungenerous and the institutions' fears were aroused that the management knew more than it was prepared to tell its outside shareholders.

This fear, that managers are not revealing all, coupled with the feeling that if the managers think they can do better then they should be prepared to do it for the existing shareholders, has dogged subsequent buy-out proposals.

Managers have had to offer institutions rather more convincing arguments to win shareholder support.

Nevertheless, Mr Harry Goodman persuaded institutions to back the £150m buy-out of his International Leisure Group in April 1987 on the grounds that the cyclical tour operations business faced a period of uncertainty. Shareholders also felt his investment plans for the airline side of the business would strain their patience and their pockets.

A year later, in April 1988, Glass Glover, a grower and distributor of fresh fruit, was able to persuade its shareholders that prospects were gloomy enough for it to be taken private by its management. Even so, one large investor, Scottish Amicable, held out for three months before finally accepting, last July that it could not force better terms on the deal.

Despite the handful of transactions that have been completed, forecasts that large numbers of disappointed recent arrivals on the Unlisted Securities Market would bow out, have not been fulfilled.

Institutions still question why they should agree to sell out when the venture capitalists, sometimes within their own organisation, are ready to back the deal. The venture capitalist has to demonstrate that the type of finance the company now needs, and the higher risks attached, justify the high rates of return he expects.

Persuading the institutions is such an uphill struggle that some venture capitalists do not believe that public company buy-outs will ever be done in large numbers. Charles Gonszor of Phildrew Ventures says buy-ins by outside management teams are more likely than buy-outs.

But opinion on this is divided. In the UK business framework, where disclosure requirements are less strict than in the US, hostile buy-in teams would not have enough information to mount a sensible offer, says Mr Otto van der Wyck of Baring Capital Investors.

Just why hostile leveraged buy-outs should have become so popular with US investors while having so little appeal for their British counterparts remains something of a mystery to many people.

Happier times: Richard Branson amid the rush for Virgin Group shares two years ago

One suggestion is that British institutions are reluctant to sell because the subsequent flotation of the buy-out group would show what a poor deal the original investors had got. In the US, by contrast, many buy-outs are dismembered and sold to trade purchasers so the discrepancy in the price is not so obvious.

Restrictions on partial tender offers in the UK, which prevent offerors from bidding for, say, 51 per cent of a company's stock, also militate against public company buy-outs, say some.

But the most commonly advanced reason is the lack of subordinated debt finance – mezzanine finance in UK parlance, junk bonds in US terms – to make the financing of large public company buy-outs possible. As the price of deals has risen a layer of high-yielding mezzanine funds has become necessary to bridge the gap between equity and secured loan finance.

Mezzanine funds, which offer a higher yield than secured or senior debt to match the greater risk, have appeared in UK buy-outs over the past two years but the amounts available have so far been modest.

This may now be about to change. Drexel is raising a £200m First Britannia fund to provide mezzanine finance for UK deals while GE Capital plans to tap its US parent's resources for large amounts of mezzanine finance.

Mr Rodney Hall, head of GE Capital's newly-established London operation, says he is willing to provide up to £300m of mezzanine finance for individual deals – five or six times more than the sums which have previously been available.

"This should lead to more deals in which public companies are taken private," he forecasts.

Mr Stephen Curran, deputy chairman of Candover Investments, also believes more of such deals are "inevitable". One reason advanced by the financiers is the "envy factor". Public company directors have seen their junior managers grow rich by staging buy-outs of their divisions and subsidiaries. Now they too want a share of the action. Whether Britain's institutions will let them still remains to be seen.

Charles Batchelor

LEVERAGE FINANCE

Specialists eye UK

NO MATTER what their relative histories generally, there can be little argument that on the financial front it is the UK which tends to ape the US. That broad generalisation certainly has some application in the corporate finance field – and, arguably, in the buy-out arena specifically.

For a start, the management buy-out movement is somewhat younger in the UK. The idea was basically borrowed from across the Atlantic in the early 1970s, and has burgeoned here since then. That said, it was not until the current decade that the MBO concept really took off in Britain, with the first deal to pass the £50m – National Freight Consortium – negotiated in 1982. Just two years later, the more advance climate on Wall Street was seeing its first $1bn buy-out – that of Wometco in 1984.

True, the growth of the MBO industry in the UK has been rapid of late. In the entire period up to 1982, the value of management buy-out deals in the UK barely approached £200m, but by 1987, the annual figure topped £3bn. Nevertheless, the US remains well ahead in the size stakes; annual leveraged buy-out activity is now reckoned at around $40bn. The US, moreover, still claims the largest deal ever done – the $6.2bn offer for Beatrice Foods.

Deal structures are another area where the US tends to lead the UK – though many might argue that innovation and financial prudence do not necessarily go hand in hand, and that the more conservative UK approach has a good deal to recommend it. Wall Street is now famed for the breadth of its capital markets, and leveraged buy-out deals there have employed any variety of complex mezzanine finance, junk bonds and the like.

These American structures, moreover, tend to translate into much higher gearing levels immediately after the buy-out is completed. It is generally reckoned that average equity to debt ratio on US deals is around nine or ten to one. The comparable UK figure is put at perhaps five to one.

Such differences, however, are largely symptomatic of a more fundamental underlying force. In general, most UK buy-outs have been initiated by either the incumbent management or, indirectly, by the management of a parent company which decides – for group strategic reasons – to dispose of one particular arm or subsidiary.

Very broadly, it is estimated that as much as three-quarter of recorded deals in the UK result from divestments by domestically or foreign-owned parent companies.

Top providers of debt

	Nos of MBOs
Bank of Scotland	28
Natwest	24
Barclays/BZW	20
Standard Chartered	18
Midland Montagu	15
Royal Bank of Scotland/Charterhouse	14
3i	13
Lloyds	12
Kleinwort Benson	11
Bankers Trust	10
Citibank	7
Creditanstalt Bankverein	7
Long Term Credit Bank of Japan	5
Den Norske Creditbank	5
Industrial Bank of Japan	5
Chase	4
Canadian Imperial Bank of Commerce	4
Credit Agricole	4
Prudential	4
Bank of Boston	4

Source: Peat Marwick McLintock

In the States, by contrast, the role of the deal-makers is far more pronounced. The Leverage Buy-Out (LBO) industry is fairly substantial with over two dozen well-known specialists in the area, plus the various investment banks. Moreover, the tradition of drumming up business via specific deals, rather than letting in surface through via well-established client relationships, is very much part of the American corporate finance scene.

With this in mind, it is not perhaps surprising that buy-outs should become a fairly familiar response to a takeover situation on Wall Street. One good current example would be the situation at publishing group Macmillan, where the UK publisher Mr Robert Maxwell has been engaged in an auction with leveraged buy-out specialist, Kohlberg Kravis Roberts. Equally, it is worth noting that the recent speculation – and no more than that – that Blue Arrow, the employment agency business headed by Mr Tony Berry, might be taken private involved talks between US investment house Dillon Read, the US investment bank, and possible investors.

But is Britain likely to continue moving closer to the States ? Those arguing in favour of this general notion usually point to the growing number of US-owned leveraged buy-out-related funds being set up in the UK. Perhaps most publicity has centred on the First Britannia fund, being set by Drexel Burnham Lambert, the acknowledged "junk bond" specialists.

This fund is expected to invest in high-yielding bonds used primarily in management buyouts in the UK and Europe. "junk bonds" – though term is shunned – are basically high-yielding securities used as a financing tool in such situations. They invariably rank low in the pecking order if the buy-out vehicle subsequently hits financial problems. They can also be linked to some sort of warrant sweetener, allowing investors to buy shares in the new vehicle at a pre-determined price in the future.

Total UK Management Buy-outs

	Number	Value £m
1980	100	40
1981	170	120
1982	190	230
1983	200	290
1984	190	260
1985	230	1,030
1986	270	1,230
1987	300	2,820
1988 (to date)	210	2,330
	1,860	8,290
Annual average	210	950

Source: Peat Marwick McLintock

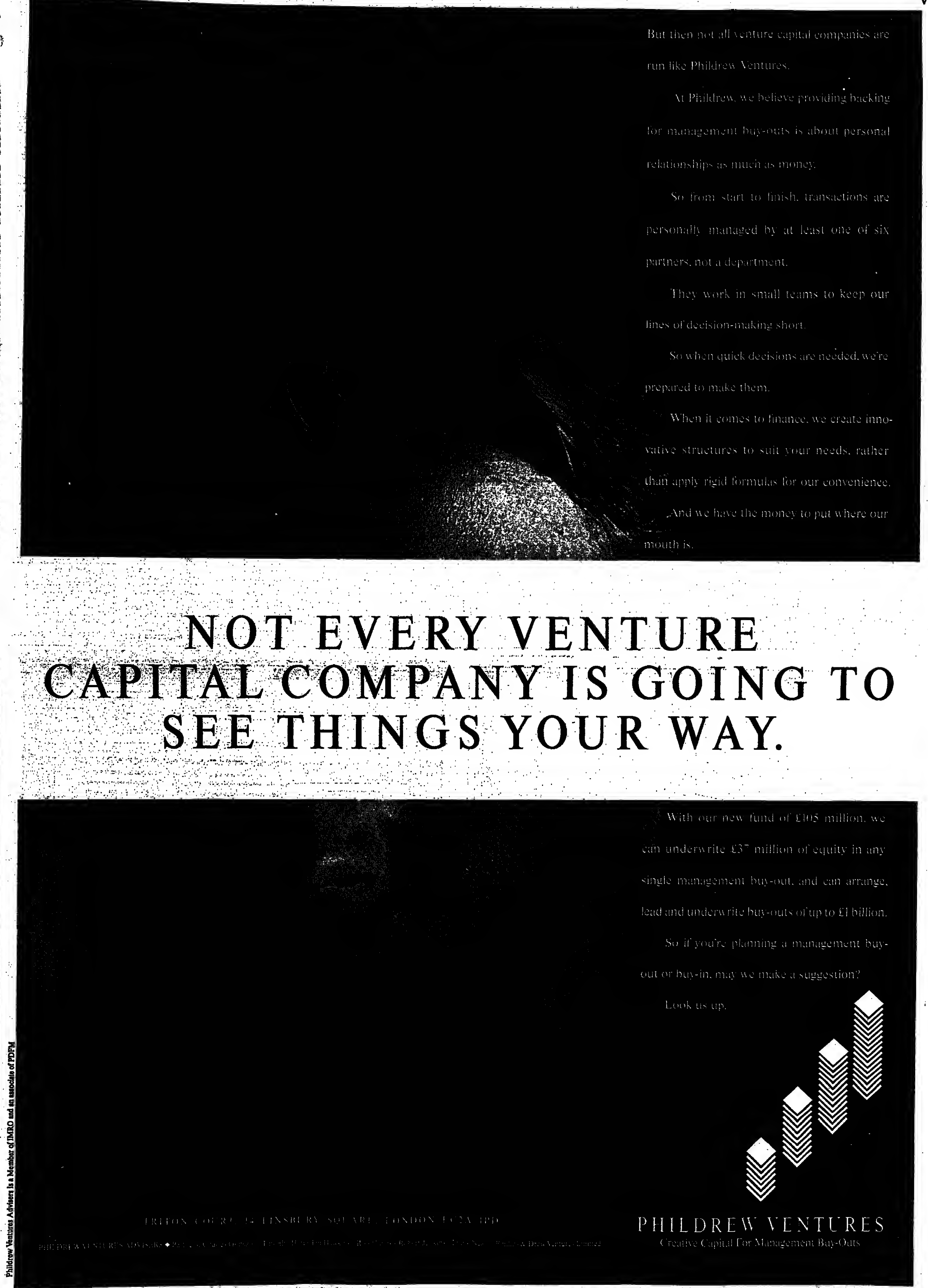
According to Drexel, the junk bond market in the States had climbed to a hefty $[illegible] (including private placements). In the UK, it is substantially smaller. The firm estimates that such bonds have featured in less than a dozen deals, totalling only some £[illegible] in value terms. Arguably, the availability of the Drexel fund could have a significant impact on the method of financing MBOs in the UK. That said, the fund is far from huge – Drexel has said that it wishes to raise about £200m with the closing date for subscriptions scheduled from early September to mid-October. The US house adds that seven deals are currently being looked at.

Drexel, it should be said, is not the only US house to see sizable opportunities in the UK's MBO market. GE Capital, the financial services arm of General Electric, has established a London-based team, for example, while Citicorp has talked about a $1bn fund.

That said, American investment houses have been thundering round the corporate finance arena generally for some time, and the overall inroads made have been relatively limited. The indigenous practitioners have some grounds for remaining fairly sanguine – in public at least. "They tend to promise more than they can deliver," says one typical, blue-blooded UK practitioner. Moreover, the thought of LBOs playing any sizable role in the contested takeover arena hardly seems a scenario likely to delight Britain's institutional shareholders – or, possibly, the Bank of England. Leveraged bids, after all, have a less-than-successful history in the UK.

But whether, in the process of trying to see off the competition, UK financing institutions themselves adopt a more American style remains to be seen. It could be an interesting battle to watch.

Nikki Tait


But then not all venture capital companies are run like Phildrew Ventures.
At Phildrew, we believe providing backing for management buy-outs is about personal relationships as much as money.
So from start to finish, transactions are personally managed by at least one of six partners, not a department.
They work in small teams to keep our lines of decision-making short.
So when quick decisions are needed, we're prepared to make them.
When it comes to finance, we create innovative structures to suit your needs, rather than apply rigid formulas for our convenience.
And we have the money to put where our mouth is.
NOT EVERY VENTURE CAPITAL COMPANY IS GOING TO SEE THINGS YOUR WAY.
With our new fund of £105 million, we can underwrite £37 million of equity in any single management buy-out, and can arrange, lead and underwrite buy-outs of up to £1 billion.
So if you're planning a management buy-out or buy-in, may we make a suggestion?
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PROFILE:KTM

KTM finalises its ESOP: l to r, Bob Bretherton, Malcolm Sheppard, Mike Bright, Graham Felstead, Joe Wickham, Peter Cooper

A big stake for the workers

WHEN Mike Bright was presented with the opportunity to buy KTM – one of the UK's leading machine tool manufacturers – from Vickers, he decided that the Brighton-based company's 265-strong workforce should be able to get in on the act as well. The result was a management buy-out coupled with one of the UK's first Employee Share Ownership Plans – ESOPs for short.

Full details of the scheme have yet to be finalised, but in essence it will be similar to those established at companies such as City Vehicle Engineering (144 employees), Llanelli Radiators (850) and MFI Furnishing Group (6,500). Amid mnch legal complexity, the purpose of which is to appease the taxman, a so-called employee benefit trust is set up as a vehicle to hold the employees' shares.

In the case of KTM, which is being advised by Granville & Co, the merchant bank specialising in small companies, the workforce will acquire an initial 19 per cent of the company's equity capital. It costs them nothing, and later on that percentage could increase.

Bright denies that he is being particularly generous, although the percentage of shares being given away seems high when compared to the 11 per cent that went to the 200 employees of Lydney Products, a former subsidiary of Mallinson Denny, or the 5 per cent which went to workers at MFI.

The total financing for the acquisition of KTM came to £7m, a figure which includes liabilities assumed by the new owners and an investment of £1.5m retained by the former parent. The great bulk of the finance took the form of the £5m term loan facility provided by the First National Bank of Chicago.

For the purposes of the acquisition, a new holding company was set up, called Flexible Manufacturing Technology Limited (FMT). The total equity investment in this vehicle amounts to £2.2m, of which £1.5m is represented by preference shares owned by Vickers. These are not convertible into ordinary shares, and are redeemable at FMT's initiative according to a timetable agreeable to both parties.

There are no outside equity investors. Bright is reluctant to disclose the precise breakdown between the equity put up by management and that which is to be allocated to the employees, which came to a total of £700,000. The purchase of the employees' shares by the trust was funded by Unity Trust, the trade union and co-operative finance house. Advice on this aspect of the deal was furnished by New Bridge St. consultants, based in the City of London.

Bright is adamant that the function of an ESOP is basically simple. He concedes, however, that the thing is somewhat more difficult to explain to employees than would seem to be strictly necessary. The essential principal is that every employee should be given shares in the company following the achievement of planned trading profits in two consecutive financial years. New employees will not be allowed to join the scheme until the beginning of the following financial year.

"The ESOP has borrowed money from Unity Trust to pay for the shares", the employee's explanatory booklet reads. "FMT will give back some of its profits to repay this borrowing. You are not responsible for paying it back in any way.

"As part of the ESOP borrowings are repaid, the ESOP will give away some of its shares to all eligible employees. For tax reasons to begin with the shares are held in trust for you and you will not normally be able to sell these shares for at least two years. If you leave them in the trust for five years, you get them completely free of income tax."

The booklet explains that although the shares are held in trust, the employee is the full beneficial owner, entitled to vote and to receive dividends.

If the company is successful, the value of the shares will increase. This value will of course not be realisable by selling the shares on the Stock Exchange, but the trust has undertaken to buy the shares if it has sufficient funds. The price it will pay will be determined by the company's auditors, and priority will be given to those employees who need to sell the shares for reasons of hardship.

The number of free shares to be allocated to each employee depends on the level of his or her salary and length of continuous service. To get the free shares, you have to have been a full-time employee for a minimum of two years on the so-called ESOP qualifying day – the last day of the financial year applicable to the planned profit which is to be achieved before the shares are to be allocated. The company will invite you to take them up. If you don't reply within a certain period, it will be deemed that you're not interested.

Certain restrictions apply. You must leave the shares in the hands of the trustees for a two-year "period of retention" as required by law. If you instruct the trustees to sell the shares or to transfer them to you between two and five years after the allocation date, you will normally be liable to pay income tax on a proportion of the original value of the shares.

If you leave your job, and the shares have already been transferred out of the trust, you may no longer keep them. If the trust is not a position to buy them at the market rate, then it will offered for sale to other shareholders. If your shares are still in trust when you leave, you are not under any obligation to sell the shares until they have been transferred to you.

The booklet has not yet been circulated to employees, but Mr Bright reports that – for all the complexities of an ESOP – they are enthusiastic about the idea.

David Waller

ESOPS

Involving the employees

TO EMPLOYEES, it must look like a fairly simple proposition. A small management team arranges to buy-out a company, and in the process stands to make a large amount of money. It would surely be simple enough to extend that opportunity to the remainder of the workforce.

Many employees would argue that they would be more committed to the success of the business if they had a direct stake in the profits which might be made. Indeed the exclusion of employees from a buy-out can heighten concern over the sudden transformation of the company with the creation of manager-owners, a rapid movement towards flotation, and then an entirely new set of owners being introduced.

But as yet, despite these reasons for including employees in a buy-out, most management teams have been put off by the complexity, and uncertainty of turning a management buy-out into a management-led, employee buy-out.

In the last couple of years several consultants, banks and other financial institutions have begun to market a mechanism which meets the employees' desires for involvement, and the management's need for speed and confidentiality.

That mechanism is to set up an Employee Share-Ownership Plan (ESOP) at the time of arranging a management buy-out.

The technique was used recently in the Unipart buy-out, which was twice over subscribed by first-time, employee investors.

The basic mechanism is to establish a trust, which can buy shares set aside for employees, and then offer them to employees once the buy-out is completed. The risk that employees may not take up all the shares on offer, can be overcome by arranging for institutional investors to underwriting the shares held in the trust.

Mr Laurie Brennan, chief executive of New Bridge Street Consultants, which specialised in employee share-ownership plans, explains: "In an effect an extra, but silent institution is introduced to the negotiating table – the trustees acting on the employees behalf."

The interest in employee share-ownership plans is likely to be encouraged by a series of developments – the introduction of non-financial forms of employee involvement, performance-related pay schemes, personal pensions, the spread of individual share-ownership through the Government's privatisation plan. These mean two things. Firstly, workers form a relationship with their employers which is not just through their pay packets. Secondly, a wage is not the sole source of workers' income.

If there was a time when employees would passively follow their managers into a dramatic change of ownership like so many foot soldiers, it is fading fast.

The banks and other financial institutions have also changed their approach. Mr James Odgers, formerly a vice president at Chemical Bank, who recently set up a special company to advise on leveraged buy-outs, says: "The *frisson* which the word "collective" sends down a bankers spine, these days, is no more than an old-fashioned reaction engendered by memories of the 1970s and the ill-starred attempts at worker ownership."

"Those days are being replaced by a growing acceptance that the more an enterprise's employees are involved at all levels of decision making and reward, the more profitable that enterprise is likely to be in the long term. Banks are beginning to realise that employees collectively organised could be a substantial and acceptable new customer source."

However there are still several extremely thorny problems which stand in the way of a successful employee/management buy-out.

Management buy-outs normally involve the management team taking a relatively small amount of ordinary shares, with institutions investers taking a large amount of preference shares. If employees are only offered ordinary shares they will be able to invest only a few pounds. Mr Brennan, advises companies go for a mix of the two.

What then is the relationship between the managers, the employees, and the institutions. Mr Odgers, who was closely involved in the recent MFI, management-employee buy-out cautions against managements seeing an ESOP as a financial tool. He says: "You cannot just stuff your employees full of shares, use them to raise investment funds, and then leave it at that. The trust has to become a way for current and future employees to become involved in the business. It has to work in tandem with other changes in management style to get to real gains in productivity, motivation and commitment."

Most employee buy-outs do not give employees the same measure of involvement as managers. Mr Brennan recommends that the employees should get a better deal than institutional investors, but not as good as the managers.

He argues the important message for employees that they are involved, but management is getting a better deal because it is on their judgment that the long term success and failure of the business can turn. Thus employee buy-outs should very much be structured as management-led.

How can employees be given an exit, so that they can realise the rise in value of the shares? This is where the trust comes in value, not merely as a means to raise initial finance, but to create a limited internal market for shares. If employees leave, they can sell the shares back to the trust.

Mr Odgers believes that an ESOP could also provide an exit route for institutions, which could sell their shares to the employees. In the event of a flotation, the ESOP could be reconstituted to maintain the employee's involvement.

Mr Odgers says: "If the employees hold the shares for a while, then sell them quickly once the value goes up, you lose all the benefits. The current employees have taken their gains and might lose motivation; the future employees have no capital incentive for greater effort, because the shares have been disposed."

Both Mr Brennan and Mr Odgers, argue that to be successful the ESOP has to be seen not just as part of the initial buy-out but a longer term change in the position of employees.

The final difficulty facing an buy-out involving an ESOP is the tax position. Will the scheme win Inland Revenue approval to offer employees tax benefits? According to Mr Odgers, this is the main uncertainty hanging over the use of ESOPs in buy-outs.

If a company attempts to set up a scheme approved by the Inland Revenue this could involve lengthy and restrictive negotiations with tax inspectors. If not, employees could be liable to pay income tax on the growth in value of their shares.

Even without the clarity of a revised tax position, Mr Brennan is convinced that manager only buy-outs are a dying species. He argues: "The traditional management buy-out is on the way out. It will be replaced with the employee buy-out and pose a new round of challenges for managers and corporate financiers."

Charles Leadbeater

Max Findlay looks at the lawyers' role

Fielding in the slips

MBO LAWYERS agree on one thing: that buy-outs are generally exhausting, highly emotional transactions (particularly in the closing stages when all night negotiations are common) which use up a lot of lawyers and support staff.

It is after that they divide. For example, ask the question 'What is an MBO?' and Anthony Lewis of Cameron Markby replies: "It's really a corporate acquisition with a few tweaks", adding that "there are not fiendishly difficult areas of law". It is simple answer with a shaft of truth.

But there are other problems. Both Derham O'Neill from Clifford Chance and Alastair Dickson of Dickson Minto agree that "the negotiations are the hardest part of the job for the lawyers."

The bargaining can be four cornered, involving the seller, the management team, the equity financiers and senior debt providers. For the lawyers, "it's like fielding in the slips at a Test Match", says John Kitching of Lovell White Durrant.

In practice, the seller and the financiers will generally find it easier to walk away from the negotiating table than the management team who are more exposed than the rest. After all, if the deal falls through, it is the managers' futures which are at greatest risk. Hence the emotion.

The role of the lawyers is central. If the solicitors are acting for the management, then, as one practitioner explained: "You often end up with people who don't use lawyers so it's all new to them."

Then, disputes often arise over the provision of warranties by the seller as to what the company consists of. There may be arguments about whether the seller ought to give the management some form of financial support or indemnity for the legal and other professional fees incurred in case the deal collapses. There will be negotiations about the structure of the ratchet.

Legal complications many also arise about the articles of association of the Newco (the company formed by the management to purchase the target firm or subsidiary being put up for sale). There will need to be skilled drafting of the share rights and the provisions relating to the transfer of the shares.

Transnational buy-outs "can impose severe logistical problems and require careful putting together of legal teams and close co-ordination of all the relevant jurisdictional requirements" says Tony Humphrey of Allen & Overy.

Articulating a general view, he adds: "Because of the complexities of international deals, proven experience in this area really is important.

Another key difficulty for the lawyers lies in the Companies Act 1985, which generally prohibits a company from giving financial assistance (including guarantees) for the purpose of financing the acquisition of its own shares.

This means that the target company cannot give security for any bank loan to the Newco. "It'd be very helpful if the legislators simplified the 1985 Act which is currently so badly drafted and difficult to interpret", commented Douglas Colliver of Norton Rose. Nevertheless, both he and Tony Humphrey agree that, despite the difficulties, "the deal will get done if it makes sense and the commercial will is there."

This will be helped by the statutory relaxation of the prohibition in the case of private companies which, according to Geoffrey Green of Ashurst Morris Crisp, "is the single reason why buy-outs can be done in the size they are now done in."

It is tempting to think that MBO work is confined to a handful of specialist City law firms. But as Bill Knight of Simmons & Simmons puts it: "Any of the top solicitors firms in the City would consider themselves well able to handle this kind of work."

It is not even the sole preserve of London solicitors either. Many large regional practices are quite capable of doing the job. John Crabtree from Wragge & Co in Birmingham explains: "With an MBO near to home, you get close to what you're buying and you can help the management to get a grip on the buy-out themselves."

Prognoses by law firms vary. Both Dickson Minto and Ashurst Morris Crisp see increasing competition between the financial institutions. Ashurst's Geoffrey Green believes that this will be "quite intense" in the case of specific funds dedicated to MBOs. Derham O'Neil at Clifford Chance forecasts a greater number of LBOs of large listed companies and some trans-European buy-outs. "There are likely to be more US mezzanine players coming on the scene and US players who want to do the very big deals", he adds. Lovell White Durrant's John Kitching similarly believes that "the mezzanine debt market is clearly going to open up now.

Other lawyers suspect that the growth will be in "going private", MBOs by "people who are fed up with the City and would rather run a private company". Allen & Overy see a rosy future for transnational buy-outs. Both Norton Rose and Lovell White Durrant contemplate a growth in one stop shopping, at least for small MBOs, with the equity, mezzanine and debt financing being provided by a single fund. Others conclude that "You'll see equity and mezzanine as one but I don't think you'll see bank debt tied in as well."

Involvement of solicitors in larger MBOs

	Acting for: Deal Leader	Acting for: Management	Total
Clifford Chance	26	13	39
Ashursts	17	4	21
Freshfields	13	1	14
Allen & Overy	8	5	13
Slaughter & May	6	6	12
Herbert Smith	7	3	10
MacFarlanes	7	–	7
Norton Rose	4	3	7
Travers Smith Braithwaite	4	3	7
S.J. Berwin	2	4	6
Evershed and Tomkinson	1	5	6
3i Legal	6	–	6
Lovell White Durrant	3	3	6
Dickson Minto	–	5	5
Linklaters	2	3	5
Turner Kenneth Brown	–	4	4
Wragge & Co	–	4	4
Berwin Leighton	1	2	3
Cameron Markby	2	1	3
Simpson Curtis	–	3	3
Alsop Stevens	–	2	2
Broomheads	–	2	2
Dibb Lupton	–	2	2
Forsyte Kerman	–	2	2
Herbert Oppenheimer	–	2	2
McKenna	–	2	2
Others	14	39	53
	123	123	246

Source: Peat Marwick McLintock

THE ACCOUNTANTS

A strengthened role

THE TROUBLE with advising on management buy-outs is that you get tempted to have a go yourself. Such a fate overtook Mr Adam Mills, head of corporate finance at accountants Spicer & Oppenheim, earlier this year.

Mr Mills did not buy out part of Spicers' business. He has instead become a director of Drawlane, a business built out of four former National Bus companies and a separate, related acquisition – a buy-in, rather than a buy-out.

"The temptation is quite great if you see a good idea," admits Mr Alec D'Janoeff, in charge of Coopers & Lybrand's MBO team. "You do see the potential to make a huge amount of money."

Despite this, Mr D'Janoeff and his counterparts at other accountancy firms seem more than usually contented with their lot at the moment. Their position in the buy-out market has strengthened as the market has grown.

Accountancy firms have always drawn the bulk of their buy-out work from the providers of finance. This has centred on what is known as due diligence work (reporting on the financial details) and tax planning.

Now they are much more likely to be called in by management teams thinking of putting an buy-out together. According to Mr David Carter at Peat Marwick McLintock, which has the largest share of the UK buy-out market, work for management now accounts for 40 per cent of his buy-out business. Last year it was probably 30 per cent.

Part of the reason for this change is the amount of finance chasing the relatively few viable proposals. Some managers can afford to pick and choose, and are using accountants to organise beauty parades of financiers.

Needless to say, this doesn't always suit the financiers, who may not like competing on price or on the proportion of equity they allow the managers.

Shopping around can lead to managers getting a far higher equity stake than they might expect. Mr Ian Krieger, head of Arthur Andersen's MBO team, has just pulled off two deals in which managers retained substantial stakes: Davis Shopfitters, an £8m buy-out in which the management team took 89 per cent of the equity, and LHT Anodising Group, a £4m deal in which the managers took all the equity. The availability of a range of finance makes this type of arrangement possible, says Mr Krieger.

The accountants are obviously keen to encourage managers to sound them out before approaching financiers. They are all prepared to spend an hour or two looking at an idea, though they tend to be choosy about the projects in which they invest more of their time than this.

"The economics of this business are difficult," says Mr Krieger. "If you take the false starts with the successful ones, it doesn't make a profitable business overall." Future work for the new company, usually including work as auditor, make up for these costs.

While keen to work for management teams, most accountants still prefer to leave it to managers and financiers to agree on terms. "Investors resent having a package presented to them on a plate," says Mr Carter.

"The institutions don't like accounting firms getting in the way. We just light the blue touch paper and retire," says Mr Geoff Westmore, in charge of MBOs at Deloitte Haskins & Sells.

This is substantially different from the approach of Mr Westmore's Deloitte colleagues to merger and acquisitions, an area in which they like to negotiate deals.

Involvement with management teams presents questions of potential conflict of interest – a concern that is becoming depressingly familiar to multiservice accountancy firms. How can they act for both financiers and managers on the same deal?

"The objectives of the two are the same, except on one issue: how you divide equity up between managers and outside investors," says Mr D'Janoeff.

That often leads to the use of separate advisers. In the £600m buy-out of Reed's non-publishing interests, which has kept Mr D'Janoeff busy for several months, the managers were advised by lawyers Slaughter & May.

A second potential conflict is noted by Mr Krieger of Andersen: having advised the management team, it is wrong for an accountant to handle the due diligence work for the financier. Such an arrangement would lead to the accountant reporting on figures he had been instrumental in presenting.

Richard Waters

Accountants in larger MBOs

	Nos of deals assisted
Peat Marwick McLintock	46
Deloitte Haskins & Sells	16
Arthur Andersen	12
Touche Ross	9
Price Waterhouse	8
Coopers & Lybrand	7
Ernst & Whinney	7
Spicer & Oppenheim	6
Arthur Young	5
Grant Thornton	2
Others	6
	124

Source: Peat Marwick McLintock

Analysis of major buy-outs in

Left to right, John O'Connell and Derek Hunt of MFI and Robert Smith of Charterhouse Development Capital

Wickes building supplies store in Edmonton

Gerry Robinson, chief executive of Compass Group

Deal Leader	Company	Total Funding £m	Other Equity Type Investors	Bank and Mezzanine Finance
Bankers Trust	International Leisure	156	Omnicorp, AIBC Finance, L&G, Jardan	Bankers Trust, AIBC, L&G, Jardan
	Oval (Hollis)	120	Vendor	Bankers Trust, Chase, Bank of America, LTCB of Japan, BF du Com Ext, Vendor
	Premier Brands	102	None	Bankers Trust, Citibank, Bank of Scotland
	Mallinson-Denny	93	Schroder, CIN Arabian Banking, BRPF, Citicorp, Colguy, CDFC, ECI, Bank of Boston, Friends Provident, 3i, L&G, Rothschild, Sun Life, Baronsmead, SDA, Smaller Cos. IT	Bankers Trust, Bank of Scotland, CIBC, Clydesdale, Midland, Natwest, RBS, Ulster Inv. Bank
	United Machinery	66	CIN, Electra, Kleinwort, MMV, Schroder, ECI, 3i, Lloyds, Prudential	3i, Barclays, Lloyds, Westpac, Prudential, Kleinwort, Lloyds, Samuel Montagu, Bankers Trust, Creditanstalt, Standard Chartered
	City Merchant Developers	40	Equitable Life, MacAlpine, Webb Construction, How Investments, Candover, Kleinwort	Bankers Trust
	Mono Pumps	29	March, Westpac, MMV, Kleinwort, Electra, Globe	Bankers Trust, Westpac, Midland, Kleinwort, March
	Leyland Bus	10	Lancashire Enterprise, Unity Trust	Bankers Trust, Bank of Scotland
Barclays Development Capital	National Freight Consortium	54	County Natwest, Lloyds, RBS	Barclays, Lloyds, RBS, Natwest
	Victaulic	15	Prudential, 3i	Barclays
	Gold Crown	15	MMV, Lloyds	Barclays
	Celebrity Centre Products (Zodiac Toys)	10	Henderson	Barclays
	Evans Halshaw	10	None	Barclays
Baring Capital Investors	Bricom	405	Charterhouse, Electra, MMV, Candover, CIN, Commercial Union, 3i, L&G, Phildrew, Prudential, Standard Chartered, Sun Life	Standard Chartered, 3i, Bank of Boston, Saudi International, CIN, Hill Samuel, Kleinwort, Prudential, Barclays, Credit Lyonnais, Bank of Tokyo, Credit du Nord, Den Norske Creditbank, Banco Hispano Americano, Generale Bank, Midland, Riggs A P, Tokai, Bank of Scotland, Creditanstalt, RBS, CIBC, Dai-Ichi Kangyo, Dresdner, IBJ, LTCB of Japan, PRIVATbanken, Sumitomo
Bank of Boston	First Leisure	44	3i, CIN, London Merchant Secs, THF, Anglia TV, L&G, Norwich Union, Refuge, County Natwest, Royal Ins, Eagle Star, British American Film	Bank of Boston, Natwest, Creditanstalt, Bank of Montreal
	National Express	10	None	Bank of Boston
British Linen	Gleneagles Hotel	13		Bank of Scotland
Candover	Caradon (Reed Building Products)	86	Globe, Electra, CIN, Scottish Eastern, Murray, Barclays, Alliance	Hong Kong & Shanghai, Citibank, Bank of Scotland, Standard Chartered, General Electric PF
	Timpson	42	3i, Electra Fleming, Murray, BP PF, Commercial Union, Scottish Amicable, Royal Ins.	County Natwest
	Simplex	29	Globe, 3i, Electra, Murray, Prudential, CIN	Bank of Scotland, Kleinwort
	Berkertex	22	Globe, Electra, Securities Trust of Scotland, Scottish Eastern, Barclays	Bank of Scotland
	Lowndes Lambert	19	Alan Patricof, ECI, Mars PF	Natwest
	Stone	18	Electra, Globe, 3i, CIN, L&G, Lloyds	Charterhouse, Kleinwort
Candover	Ansafone	14	County Natwest, Electra, ECI, SUMIT, Kleinwort, Montagu Loebl, English Assoc Trust, NZ Ins, Norwich Union, Sun Life, Thompson Clive	Natwest
	Motor World	11	Globe, Scottish Eastern, Phildrew, Citicorp, Kleinwort	Bank of Scotland
	Famous Names	8	County Natwest, Gresham, Lazard, Prudential, SUMIT, Fountain	Natwest, Ansbacher
Candover/ SUMIT	Partco	13	Globe, Scottish Eastern, Hoare Candover	Bank of Scotland
Charterhouse	MFI/Hygena	718	Globe, CIN, Citicorp, Nightingale Atlantic Chemical, Ivory & Sime, BR PF, Kleinwort, Standard Chartered, Norwich Union, Wilmington, Phildrew, Brown Shipley, Candover, Credit National, Initiative et Finance, Four Seasons, Essor Inv/OBC Dev	Chemical, Dai-Ichi Kangyo, Soc Gen, Toronto-Dominion, FN Chicago, Sumitomo, Paribas, IBJ, Charterhouse, Credit Agricole, Natwest, Standard Chartered, Bank of Tokyo, Fuji, LTCB of Japan, Kansallis, BF due Com Ext, Dresdner, Kleinwort, Riyad, Arab, Creditanstalt, Taiyo Kobe, Bank of Scotland, Nippon Credit, Mitsui, Yasuda
	Argus Press	207	Citicorp, Warburg, 3i, Phildrew, Prudential, Barings, Globe, Standard Life, MMV, CIN	Chemical, Bank of Scotland
Charterhouse	Crowther's Clothing	103	MMV, Warburg, Phildrew	Warburg, Continental Illinois, Sumitomo, Midland
	Unipart	52	Electra, Globe, 3i, Standard Life, Citicorp	Barclays, Commerzbank, Fuji, Standard Chartered, Banque Nationale de Paris, Lloyds, Midland, RBS
	Ellerman Lines	15	Electra, Noble Grossart, MMV, 3i, Gresham, Lloyds, Barclays, ECI, Kleinwort	Kleinwort, Barclays
	Secure Homes	13	3i, SUMIT, Prudential, Scottish Eastern, Electra, F&C, Murray	3i, Nova Scotia, Gotabanken, Yorkshire
	A.J. Archer (MENCC)	12	Murray, Noble Grossart, Electra	Charterhouse, Standard Chartered, Banco Hispano Americano
Charterhouse/ Citicorp	Wades	19	None	RBS
	Maccess I	71	Rothschild, Murray	Standard Chartered
Chase	Pontin's Holidays	58	None	Bank of Scotland
CIN	Reedpack	631	Reed, 3i, Globe, Citicorp, Prudential, Charterhouse, Murray, Barclays, L&G, Warburg, Phildrew, Fleming, ECI, MMV, Chemical, Electra, F&C, Lloyds, Brown Shipley, Commercial Union, Kleinwort, Thompson Clive, County Natwest, Grosvenor, B&C, Baronsmead, Bahrain Middle East, Bank of Boston, Creditanstalt, Close, Development Capital Corp, Gartmore, Gresham, Hambro European, March, MIM, Quayle Munro, Rothschild, Scimitar, Sun Life, TSB, Northern Investors, Gilde	Chemical, Natwest, IBJ, Bank of Scotland
	Furmanite	12	3i, MIM	Natwest, Jovran Smith
Citicorp	Tip Europe	60	3i, Prudential, MMV, Globe, County Natwest, Brown Goldie, Charterhouse, ECI, Kleinwort, Phildrew, Creditanstalt, CIN, Close, Murray	Bankers Trust, Kleinwort, Bank of Boston
	United News Shops	29	Charterhouse, County Natwest, Standard Chartered, Phildrew, SPHGEV	Standard Chartered, Citibank, Charterhouse, Phildrew, Bank of Scotland, Barclays, Credit Suisse, Natwest
	Cundell Corrugated	15	3i, Fountain, Charterhouse, County Natwest, CIN	Citibank
Citicorp	European Industrial Services (GKN Fasteners)	12	Fountain, BRPF	Citibank
	KDG Instruments	11	CIN, Prudential, Enterprise Trust	Bank of Scotland
Citicorp/ CIN	Paragon	24	Globe, Electra, F&C, 3i	Den Norske Credit, Natwest
Citicorp/ Guidehouse	Wilminster (Hornby)	10	SUMIT, Electra, F.S. Assurance, Melville, Schroder	
County Natwest Ventures	Harveys Furnishings	32	Private individuals	None
	Maccess (II)	20	3i, MIM, Standard Chartered	Standard Chartered
	Vosper Thornycroft	19	Gresham	Standard Chartered
	Aynsley China	18	MMV, 3i, Kleinwort	Natwest, 3i, Kleinwort
	Aqualisa Products	16	Citicorp, Brown Shipley, 3i, Charterhouse	Natwest
	AMG Inds (Vulcan Packaging)	15		Natwest
	Holiday Dyes	12	Citicorp, 3i, APA, Thompson Clive, ECI, Standard Life	Hong Kong & Shanghai, Barclays
	Venture Plant (Tilbury Plant	12	SPHGEV, Causeway, Prudential, ECI, Citicorp, Phildrew	Natwest, Lombard
Electra	Haden (Manugood)	60	PIC Capital, Globe, Lloyds, Charterhouse, F&C, Citicorp, Candover, RBS, Morgan Capital, Hoare Candover	PIC Capital, Morgan Guaranty
Electra/ Candover	Hays	255	KIO, CIN, Barclays, Lloyds	Barclays, Lloyds, Bank of Scotland
	Humberclyde Inv (ANZ Leasing)	205		ANZ
	Fairey Eng.	51		Samuel Montagu
	Rentco	43		Standard Chartered
	Hillshott (Dwek Group)	39		Bank of Scotland
Electra/ Scandinavian Bank	UK Paper (Bowater Paper)	38	Candover, Globe	Scandinavian
Foreign & Colonial Ventures	Essanelle	11	MIM	Den Norske Creditbank
Granville	Serco (RCA Service)	15	Barclays, County Natwest, CIN, L&G, Lloyds, Manuf Hanover, Schroder	Barclays
Granville	Reestar	13	Ivory & Sime, E of Scotland Ind	Credit Agricole
	Record Ridgway	13	Baillie Gifford, Eagle Star, F&C, Gartmore, L&G, London Life, Postel, Rothschild, Scottish Provident, S. Yorks CC, Standard Life	RBS
	Joyes Hygiene	11	Barclays, Charterhouse, Confed Life, Eagle Star, Electra, Friends Provident, Grosvenor, L&G, Lloyds, S. Yorks CC, Stewart, Rothschild	Standard Chartered

National Express, the best-known subsidiary of the National Bus Company, was the subject of a management buy-out earlier this year for an undisclosed sum. National Bus Company's subsidiaries have now all been privatised and many of the disposals have taken the form of a management buy-out.

the UK by deal participants

Deal Leader	Company	Total Funding £m	Other Equity Type Investors	Bank and Mezzanine Finance
	RFS Industries	10	Yorkshire Enterprise, Yorks CC, CIN	Barclays, Unit Trust
	Isis	8	CIN, Citicorp, Equitable Life, F&C, L&G, Norwich Union, Scottish Equitable	
Guidehouse	SPP Group	9	ECI, Friends Provident, Lloyds	PRIVATbanken, Lloyds
Hambros	Hugin	26	3i, Prudential, Electra, CIN	None
Hill Samuel	Wordplex	28	Public	Bank of Scotland
3i	Compass	160	Prudential, CIN, Barclays, Charterhouse, Citicorp, Close, Commercial Union, County Natwest, F&C, Globe, Warburg, Phildrew, Schroder, Scottish Amicable, SPHGEV, Standard Chartered, Standard Life	Natwest, Bank of Scotland, Credit Agricole, IBJ, Standard Chartered, Toronto-Dominion, Westpac, Arab, 3i, Barclays
	Moores Furniture	80	Warburg, CIN, Prudential, L&G, Initiative et Finance, Standard Life, Sun Life	3i, Natwest, Toronto-Dominion, Credit Lyonnaise, Standard Chartered, Ulster Investment, Nippon Credit, LTCB of Japan, Credit Suisse
	Associated Fresh Foods	68	SPHGEV, Prudential, Charterhouse, CIN, Citicorp, Warburg, Standard Chartered	Standard Chartered, 3i, Bank of Scotland, Barclays, CIBC, Chase, Credit Lyonnais, Den Norsk Credit, Rothschild, Charterhouse
	Computing Devices	19	CIN, Warburg, Prudential	None
	Peerless Plastic	18	MIM, County Natwest	Barclays, 3i, MIM, County Natwest
	Nestor BNA	15	Citicorp, County Natwest, F&C, Electra, Murray, Phildrew, Prudential	Natwest
	Trend Communications	12	CIN, Prudential, Lazard	Natwest, 3i
3i	Radstone Technology	10	Alan Patricof, County Natwest, Gresham, Prudential, Thompson Clive	Midland
	Tibbett & Britten	10	Murray	Lloyds
	Exacta	10	CIN, Close, County Natwest, Darnaway, Scottish Eastern, Lothian, Prudential, SDA	Bank of Scotland
3i/Warburg/ Charterhouse	Allied Steel & Wire	181	Charterhouse, 3i, BSC, Kleinwort, County Natwest, Globe, Lloyds, Rothschild, Citicorp	Warburg, Bank of Scotland, Creditanstalt, Lloyds, Natwest, Bank of New York, Kansallis, Den Danske, Nova Scotia, Charterhouse, Bank of Wales
3i/Warburg	Wickes	120	Imperial Life, Poss Fund, Prudential, LLoyds, MMV, Baring, Britel, Somerset CC, Global Asset Management, St. Catherine's College, Merchant Navy PF, TR Industrial & General MIM	3i
3i/ Prudential/ Manchester Exchange Trust	St. Regis	52	CIN, Warburg, Electra, Murray, Bank of Boston, Hoare Candover, Citicorp, Melville, clients of Messels	Natwest, Citibank, Chase
3i/ Prudential	Westbury	18	Electra, Murray, Citicorp, Kleinwort, Brown Goldie, County Natwest, Gresham, Hoare Candover, MMV, CIN, North Brit. Canadian, London Life, Target, L&G, Alliance, Collonade	Midland
	Gomme	12	Barclays, Charterhouse, CIN, County Natwest, Fountain, MMV, Phildrew, Shires IT	3i
3i/Citicorp	Technitron	21	Schroder, F&C, Ivory & Sime, Baring, County Natwest, ECI, Fleming, Globe, Kleinwort, Prudential, Rothschild, SUMIT	Den Norske Creditbank, Chase
Kleinwort Benson	Istel	26	MMV, Citicorp, Barclays, Lloyds, Warburg, Thompson Clive, SUMIT, Candover, Bank of Boston	Lloyds
	Bradstock Group Insurance	20	None	Kleinwort
Kleinwort Benson/ Chase	Collier	47	MMV, Scottish Eastern, Bricomin, Britel, Caledonia, Cayzer, Eagle Star, Meldrum, Mercantile & General, Poss Fund, TR Trustees, Westman Nominees, 3i	Midland
Lloyds Development Capital/ Merchant Bank	VSEL	100	3i, Bank of Boston, Prudential, Abbey Life, Britannia, BAe PF, Commercial Union, Eagle Star, Hoare Govett, London & Manchester, Norwich Union, Pearl Assurance Prolific, Save & Prosper, Equitable Life, St. George's PF	Prudential
	Norwest Holst	45		Lloyds, Norwest Hols PF
	Evans Healthcare	27	Barclays, Phildrew, Bankers Trust, County Natwest, 3i	Natwest, Bank of Boston
	Thermalite	12	Wood MacKenzie, Warburg, Electra, Kleinwort, Merchant Navy PF, MMV, Postel, Gartmore, Ivory & Sime, CIN	
Merrill Lynch	Lawson Mardon	280	Canadian private companies	Citibank, Bank of Nova Scotia, Pru Capital
Midland Montagu Ventures	Macca Leisure	98	Warburg, 3i, Royal Ins, Eagle Star, Charterhouse, Merchant Navy PF, Refuge, Scottish Widows, BRPF, Fountain, MIM, RBS, Norwich Union, Scottish Amicable, Friends Provident, London Life, Gartmore, Morgan Grenfell, Barclays, British Linen Bank, Yorks CC, Postel	Samuel Montagu, RBS, 3i, Charterhouse, Creditanstalt
	Lewis's	74	None	Samuel Montagu
	British Transport Advertising	50	None	Midland
	AVO (Thorn EMI Measurement)	15	None	Midland, Philadelphia National
	Porth Decorative Products	12	County Natwest, ECI, Fountain, SUMIT, WDA	Natwest
Midland Montagu Ventures/ CIN	GBE International (AMF Legg)	25	FN Boston, Electra, Norwich Union, Charterhouse, Refuge, Sun Life	Midland
Morgan Grenfell	Target	50	Merchant Navy PF, Bank of Scotland, Britec, Grosvenor, MMV, Poss Fund, Schroder	
Murray Johnstone	Clairmont (Cooper Bearings)	14	3i	TSB
Norwich Union Venture Capital	Royco	13	None	Barclays
Scandinavian	Intercraft Designs	15	Private individuals	Scandinavian, PRIVATbanken
Schroder Ventures	Parker Pen	74	Bankers Trust, Electra, Chemical	Bankers Trust, Kleinwort
	Glass Glover	61	None	Standard Chartered, Bank of Scotland
	Goldsmiths	43	None	Standard Chartered, Bank of Scotland
	Crown House Engineering	36	None	Credit Agricole, Bank of Scotland
	Ward White Footwear	36	Vendor	Manuf Hanover, Prudential
	Haleworth (London & Midland Industries)	25	None	Manuf Hanover
	Burlington Int	10	None	Standard Chartered
SPHG Equity Ventures	VF International (Vickers Furniture)	39	Warburg, Charterhouse, Phildrew, County Natwest, Citicorp, CIN	SecPac
	Clarus Equipment	29	County Natwest, CIN, Barclays	SecPac, Lloyds, 3i, Saud Int
Warburg/ Mercury	York Trailer	61	SPHGEV, 3i, Charterhouse, Phildrew, Lloyds, CIN, SUMIT	Warburg, Creditanstalt, Bank of Scotland, Barclays, CIBC, Kansallis, LTCB of Japan, Lloyds
	Data Recording Instruments	22	NEB, Prudential, Pallas, British Gas PF, Electra, L&G Kleinwort	None
NONE	Amalgamated Foods	21	Linford Dee	Linford Dee, Natwest
	Janson Green	13	None	None
	Willis Faber (Willington)	10	None	Barings
	English & American Insurance Co.	10	None	None
	Bison Group	10		Bank of Scotland
	Brymon Airways	9	None	Manuf Hanover
	Stanley Gibbons	9	None	Barclays

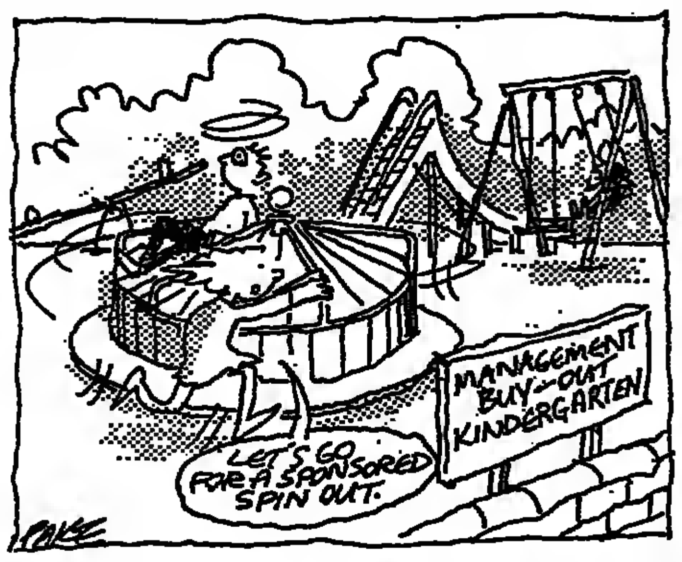
Harry Goodman of International Leisure Group

Gleneagles Hotel, Perthshire, Scotland

G E Fowkes, chief executive, Argus Press

West Germany has yet to undertake large-scale deals

Music of the future



EVERYONE SAYS it is just around the corner, but few have yet to do many deals. To borrow from the vernacular, large-scale management buy-outs in West Germany remain very much Zukunftsmusik - music of the future.

Some think they have heard the first bars. A number of management buy-out teams have already been set up in Germany, some of which have already done business.

"There have been some 30-50 buy-outs in Germany so far", estimates Mr Christoph Neizert, a specialist at Bankers Trust in Frankfurt. But gaining a precise figure is virtually impossible, as many of the deals are not publicised. Estimates for this year vary between 8-15 transactions.

However, most of the business remains "klein aber fein" - small but high quality - according to the experts, with last year's DM100m buy-out the European machine tool division of Ex-Cell-O of the US still the biggest transaction so far.

But few specialists have any doubts about the potential in Germany. The country has some 20,000 small and medium-sized family companies with sales of over DM5m, all of which are seen as possible buy-out candidates. The products are good, but distribution and sales channels are not always entirely up to scratch, and there is often potential for consolidation.

Persuading good managers to turn into entrepreneurs is not always so easy, however. "There are not yet that many risk-orientated, dynamic managers who want to become owners", says Mr Neizert. "The sense of change is certainly there, but things are going very slowly".

German buy-out specialists fall into two groups. The majority provide both advice and equity capital for deals. The biggest of these is J Henry Schroder, the UK merchant bank, which set up a DM140m Hamburg-based management buy-out fund almost two years ago - the first of its kind in the country.

Its boss, Mr Thomas Matzen, is very confident about the future. The business has "really started to grow", he says, and Schroder has notched up deals worth DM300m so far. Although transactions have generally been small, he expects the size to start creeping up soon.

Among the ventures he has on hand is to float Ex-Cell-O – whose buy out Schroders' financed – on the stockmarket. The likely size of the deal, which may take place in mid-1989, remains unclear, "but it will be more than we paid", he says confidently.

There are also two more ambitious plans in the pipeline, both involving buying out selected companies in the same industries, which combined and rationalised, would subsequently be floated.

Thus at the end of last year, Schroders financed the buy-out of Hein Gericke, a retail motorcycle accessories chain. Since then, it has bought the group's main competitor, and hopes to close the buy-out of a third group in the same field by the end of October.

The combined unit, which Mr Matzen hopes to float in end-1989 or early 1990, would involve a "much larger" sum than the DM100m spent on Ex-Cell-O, he says.

Schroders is also planning a similar path for a group of companies in the textiles business. It has helped to buy out Brandt, an old-established mens' outerwear and sportswear concern and has recently closed a deal on another textile firm. Although that will not be effective until the end of this year, Mr Matzen is now on the look-out for a third company in the same industry.

"We're really trying to build groups", he says. The aim is to reduce the vulnerability of individual units while looking for synergy in areas like distribution and purchasing prior to subsequent flotation.

Other companies involved in equity-financing for buy-outs include the Matuschka group, which has been engaged in the business for some years through TVM, its venture capital arm, and Baring Capital Investments, both based in Munich.

Meanwhile, a number of outfits have been set up in Frankfurt. LCB-Candover is a partnership between Candover Investments, the UK buy-out specialist, and London and Continental Bankers, a UK merchant bank in which Deutsche Genossenschaftsbank has a majority stake. The UK's 3i (Investors in Industry) has a Frankfurt office, while Citicorp Venture Capital is working out of the parent bank's German headquarters in the city.

A number of other US commercial and investment banks also have embryonic German buy-out operations – though often as extentions of their growing domestic corporate finance teams. And German banks have also woken up to buy-outs, with Deutsche Beteiligungs, a subsidiary of Deutsche Bank, probably the furthest ahead.

Meanwhile, some institutions, such as Bankers Trust, are concentrating on the debt side of the business rather than getting directly involved in providing equity stakes.

Yet despite the widely-reported increase in business – and the exponential rise in the number of glossy magazine articles about it – buy-outs still suffer from a number of constraints in Germany.

The first is attitudes. As with takeover bids, selling companies is still seen as slightly "dubious" by many conservative financiers and businessmen, with the unstated implication that the company concerned may be in trouble – thus warranting the special treatment.

Education and information are also still drawbacks in some areas. "We are still in the Kindergarten phase" compared to experience in the US and UK, says one specialist.

The lack of expertise on buy-outs applies much less to big city bankers than to managers or owners of small companies or officials in the banks' local branches with which the companies themselves deal. "The seminars on buy-outs are always full, but they're always full of bankers from the big cities", notes one specialist. "People from small companies themselves are seldom there".

Lastly, tax considerations have confused the picture somewhat. On the one hand, Germany's major tax reform due for 1990 has indirectly spurred interest recently. The tax reforms mean that private individuals selling their companies will no longer be entitled to the 50 per cent tax break on top marginal rates on profits from the sale as at present.

Thus a large number of entrepreneurs – especially those facing succession problems – have become interested in selling out before the tax change bites. Buy-out specialists expect their activity to perk up even further as the 1990 deadline approaches.

But "there is nothing in the 1990 tax reform package which will stimulate the buy-out business or make it more interesting" either, according to one specialist. As a result, Germany's slowly, slowly approach to buy-outs looks set to continue, even if there is a short spurt in the months ahead.

Haig Simonian

FRANCE

A fertile environment

IN FRANCE they are called "rachats d'entreprises par les salaries", or just RES for short.

During the last four years, management buy-outs and leveraged buy-outs have become increasingly common in France, reflecting the broad economic changes that have taken place in the country as a result of the deregulation and modernisation of the French financial markets and of the economy in general.

The development of the buy-out business is also a reflection of a profound evolution in French business thinking and culture which has occurred during the last few years.

By the end of last year, there had been about 200 separate management buy-out operations in France – more than in any other single country in continental Europe. "France has traditionally followed the trends set in the US and the UK," remarked a French management buy-out specialist. "But we have often followed before the other continental European countries."

The buy-out business has continued to expand this year with a number of large buy-outs including the FFr7.1bn buy-out of Darty, the electrical retailing group. This has been by far the biggest leveraged management buy-out to have been engineered in France so far. Even though the Darty operation provoked considerable controversy because of the opposition of some institutional investors with minority stakes in the company, the deal has clearly helped to establish buy-outs as increasingly commonplace in France.

Other large buy-outs have been launched this year including, among them, the buy-out of the Pier Import retailing group. Earlier this year, Mr Jean Mantelet, the founder of Moulinex, the French kitchen appliance group, also announced plans for an unusual form of delayed management buy-out whereby control of the company would be acquired by the group's management and employees after his death.

The Moulinex case illustrates one of the main reasons why France provides a fertile environment for management buy-outs. French business and industry is increasingly facing management succession problems as their founders or chief executives reach retirement age. According to the French national statistics institute, INSEE, there are about 10,000 small and medium-sized companies employing between 50 and 1,000 workers each which will face a succession problem or will have changed ownership between now and 1990.

Moreover, the difficulties in finding a successor when a small company chairman dies or decides to retire are estimated to cause about 10 per cent of French bankruptcies.

France has traditionally followed the trends set in the US and the UK

For this reason, the French authorities have encouraged the development of buy-outs as a device to provide continuity in the management of the country's small and medium-sized business sector and try to reduce the risk of small companies disappearing because of the failure to find a relay to its original management.

The field for buy-outs has also been expanded by another important factor in France. An increasing number of large French and multinational companies have been seeking to restructure and streamline their operations in recent years. This has often entailed spinning off less profitable and peripheral activities and management buy-outs have emerged as an attractive solution in some of these restructuring cases.

This strong potential market for management buy-outs has been further stimulated by the combination of French government incentives and the remarkable change that has taken place in recent years in French business attitudes. "During the last few years, the French have started to discover the Bourse. This public awareness of the equity market has been especially boosted by the previous right-wing government's privatisation programme," explained another French buy-out specialist. The development of the "second market", the French equivalent of the unlisted securities market, has also boosted venture capital and buy-outs.

"Another important factor is the growing awareness among a new generation of young managers of the possibilities offered by the small and medium-sized business sector. More and more young people are attracted to this sector which was certainly not the case in the past," explained Mr Jean-Jacques Caussin, a partner of Clifford Chance in Paris.

Legislation to encourage managers and employees to take over their own business was first introduced by the Socialists in July 1984 as part of the government's efforts to help strengthen the capital base of French industry and address the country's particularly delicate business succession problem. But the 1984 law, which provided substantial tax concessions for management buy outs, proved disappointing. The heavy bureaucratic constraints of the original law turned out to be a big obstacle and the subsequent right-wing government of Mr Jacques Chirac modified the buy-out legislation last year, before it was swept out of power by this year's Socialist election victory.

The revised legislation reduced the original level of tax concessions in the 1984 law. But it also cut back on all the administrative red tape making the system much more attractive. At the same time, the former right-wing government also changed its corporate tax rules to allow consolidation of group profits and losses. This has had important implications for buy-outs where a new company is created by the buy-out team to bid for the existing business.

This has been the case of the recent Darty buy-out where Financiere Darty, the buy-out consortium, principally composed of senior managers and the Darty family, have acquired control of more than 95 per cent of the Darty operating company. Under the new consolidation provisions, the group after passing the 95 per cent barrier can now offset the interest payments on the buy-out consortium's debt against the tax payments of the operating company. However, it is under the French regulations committed to this status for five years and may not merge the two halves during this period.

The arrival of the new Socialist government this year is not expected to have any adverse impact on the general buy-out trends in France. Indeed, the new government is committed to the principle and has proposed in its latest budget to reduce further the level of French corporate taxation to give an additional boost to French enterprises and their competitiveness.

Paul Betts

David Lane looks at Italian business trends

Keeping it in the family

"LEVERAGED boy-oots (LBOs) are going to rejuvenate Italy's family businesses," predicts Mr Dante Razzano, general manager at Citicorp's Mergers and Acquisitions Department in Milan.

"Family concerns predominate in Italian industry. So instead of management buy-outs, we will probably be seeing family buy-outs here."

Mr Razzano points to the scarcity of listed companies as a factor determining the kinds of operations which will be undertaken in Italy. With only 204 names on the Milan stock market at the end of 1987, and many of these large groups or state controlled, buy-outs of qooted companies are not expected to generate much action. Instead the focus is on the medium sized privately-owned family companies which form Italy's business fabric.

Manufacturing industry flourished in the hands of dynamic entrepreneurs, reconstructing the ecooomy and building their own businesses during Italy's post-war economic miracle. Their family firms are now passing to third and fourth generations. Weakening ties or increasing differences between family members are the factors which are opening the way for buy-outs.

With the US and Britain trail-blazing and the lessons of their experiences now being transferred, businessmen in Italy are only now becoming aware of the possibilities offered by buy-outs. Indeed the three Italian cases which are generally cited concern boy-outs which were successfully completed this summer.

However, the story of buy-outs in Italy started at the beginning of the decade when managers purchased control of Reconta, a major accounting firm. "Mediobanca established Reconta in 1961 and the firm immediately forged links with Touche Ross. Initially we were mainly engaged on referred work, auditing the Italian subsidiaries of TR's British and US clients," recalls Mr Bruno Gimpel, now senior partner of Reconta Touche Ross.

Matters changed significantly, however, when obligatory external sudit was introduced for quoted companies and subsidiaries of the state holding corporations at the end of the 1970s. Questions were then raised as to the propriety of a merchant bank, itself owned indirectly by the IRI state holding corporation, cootrolling an audit firm.

"The crux of the problem was the audit of companies in which Mediobanca had shareholdings," explains Mr Gimpel. Indeed in May 1980, Italy's companies and stock exchange commission Consob ruled thet Reconta should not aodit Mediobanca investments.

A solution was quickly found. The British firm TR acquired Reconta from Mediobanca at the end of May 1980. This was a bridging phase in the management buy-out. On January 1 1981 Reconta's 13 managers bought 75 per cent of the firm from TR in London. The cash deal cost the Italian partners the same amount as TR had paid Mediobanca.

As a Mediobanca subsidiary Reconta had been a joint stock company with share capital and reserves amounting to L700m. The sum paid by Recoota'e managers was this net worth figure, plus a consideration for goodwill. "Most managers had sufficient severance pay to cover their shares in the buy-out. Those whose resources fell short had no difficulty in obtaining bank loans," Mr Gimpel says.

The Reconta TR case was exceptional, imposed by unusual circumstances. Uotil this year. management buy-outs in Italy remained out of fashion. But widely reported operations involving Petrini, Rimoldi and Fata have revived interest. Citicorp was involved in two of the three cases, which are the first of what Mr Razzano considers will provide good business for some financial institutions and a healthy shake-up for industry.

Petrini, a Perugia company with $250m annual sales from

animal feed, stock farms and pasta, was at the fourth generation of family management. "Ownership was shared between five different family groups. But this was made even more complex by the presence of 10 Petrinis in operational positions," Mr Razzano says.

"The business was jogging along, but really going nowhere and lacking strategy. Citicorp had been involved with Petrini's new pasta factory in Missouri and the parent company in Italy turned to us earlier this year for ideas," says the bank's executive. The advice was to sell to outsiders or be bought out by insiders.

Fundamental aims were to keep the company together and avoid fighting between the family groups. Despite stable profits and substantial cash flow, interest from outsiders was low – the price asked was too high. A solution which satisfied everyone was an LBO offer from Mr Carlo Petrini.

Mr Petrini's stake in the family business was 25 per cent. With an offer of about $100m he took full control. "We completed the operation remarkably quickly. By the beginning of August, only six weeks after taking the LBO decision, Mr Petrini had bought out the other members of his family," Mr Razzano recounts.

Citicorp was involved in three ways. First, Mr Razzano's Mergers and Acquisitions Department provided advice and overall management for the operation. Second, with Continental Illinois and San Paolo Finance, the bank's venture capital group took a 27 per cent stake in Petrini. Third, the leveraged capital group organised senior debt (floating at somewhere between 1.5 and 2 per cent over interbank rate) for almost the whole purchase figure, the syndicated loan operation involving Citibank and four others.

"It is unusual to have three parts of the bank involved. Mergers and Acquisitions earned fees, calculated as a percentage of the deal. The seven-year loan generates interest income and there was a fee for underwriting the equity," Mr Razzano explains. He adds that Citicorp will eventually dispose of its stake in Petrini, with Mr Petrini having the option to buy, and that the bank then expects to realise a capital gain.

Two other LBOs have been concluded in Italy this year. Citicorp's second operation ranks as a true management buy-out, company managers purchasing Rimoldi, a manufacturer of industrial sewing machines, from Rockwell, its US parent. The total consideration amounted to L156.5bn (about $102m) with the managers obtaining 20 per cent of the equity with cash, and being supported by L96bn of senior debt and L35.5bn of subordinate debt.

The Rimoldi operation, which the managers won with a closed bid against at least two other contenders, was completed in June. "Seventeen managers participated in the deal, a number which Italian superstition rates as most inauspicious," says Mr Carlo Brambilla, corporate finance vice president at Citicorp. He considers, however, that Rimoldi, which had been defined as peripheral to Rockwell's core business, ought to flourish.

Like Rimoldi, Italy's third LBO this year involved a multinational. In July, managers at Turin engineering company Fata bought a 28 per cent stake from the British parent FKI Babcock, in an operation worth L130bn.

Interim financing was provided by San Paolo Finance and Compagnia Finanziaria Ligure Piemontese which took large temporary stakes. At the end of last month the Finmeccanica engineering group of state holding corporation IRI acquired 28 per cent of the share capital. And the two banks expect to reduce their holdings still further through sales to other investors.

"Subsidiaries of multinationals, perhaps those which are under-performing, will probably provide some buy-out protagonists. But most will be family businesses," says Mr Razzano. He argues that 1992's single market pressures will cause a search for greater efficiency in Italian industry and that family buy-outs will be seen as one way to rationalise.

Leveraged buy-outs have aroused controversy during the past year. But Mr Razzano describes the attacks on the legality and ethics of LBOs, like those made by Fiat lawyer Mr Franzo Grande Stevens, as bizarre. While Italy is still short on experience of LBOs, it is long on possibilities. And Mr Razzano is convinced that these will be exploited in the next few years.

THE NETHERLANDS

Managers take the initiative

MANAGEMENT buy-outs in the Netherlands are becoming increasingly a vehicle for inspired managers to breath new life into dying operations.

The transformation from European-style bail-outs to American-style rebirths is being fuelled by a new entrepreneurial élan, industry's back-to-basics trend, increasing expertise and ample financing. The single European market of 1992 could accelerate the trend.

"The initiative is now coming more often from managers than from the mother companies," explains Mr J V Verhoef, a director of the Netherlands Merchant Bank, a subsidiary of NMB bank. "There is more pluck and more money."

The Netherlands is believed to rank at the top of continental European countries in MBOs with a total of about 150 in recent years. Between 30 and 40 were done in 1987 but the pace has slowed this year, with only 20 so far.

Deals vary greatly in size but generally are small, averaging around Fl 5m-10m. The biggest to date was the Fl 240m leveraged buy-out of Van Nelle – a purveyor of coffee, tobacco and chocolate – from Nabisco Brands of the US, in 1986.

Debt-to-equity ratio differs greatly from deal to deal but seems to average around 75-25, according to Mr Verhoef.

A number of factors have propelled the Netherlands into the lead. Perhaps most important is the more favourable business climate where profit is no longer a dirty word.

Also Dutch companies, like their counterparts world-wide, are paring back operations to core businesses in a bid to increase efficiency and battle-readiness for 1992.

Venture capital for funding MBOs is ample. More than Fl1.5bn is available in the Netherlands, putting it second behind France on the Continent. MBOs absorb nearly twice as much venture capital now as a couple of years ago, about 20 per cent of the total Fl1.5bn invested.

Expertise available to managers considering a buy-out is improving. Venture capital funds, banks and management consultants are focusing attention on MBOs as never before.

Venture Capital Investors of Rotterdam, an innovative risk capital fund, was set up as a joint venture early this year with Candover Investments, a UK specialist in MBOs. The Anglo-Dutch venture specialises in buy-outs, bolstered by VCI's success in financing the buy-out of a Philips subsidiary.

The Netherlands Merchant Bank uses its links with NMB bank to arrange custom-designed mixes of risk capital and conventional bank loans. NMB is heavily involved in venture capital.

An active "parallel market" for second-tier companies provides an entrée for young, smaller companies to the capital markets. Getronics, formerly Geveke Electronics, went to the parallel market while completing a leveraged buy-out and then moved up to the official bourse.

Relatively cheap prices for Dutch companies make them more affordable to cash-strapped managers. Price-to-earnings ratios on the Amsterdam stock exchange are historically low by international standards for a variety of reasons including impervious anti-takeover defences and slow economic growth.

A favourable tax climate fosters MBOs. There are no taxes on capital gains, thereby enhancing rewards for shareholders, and none on dividends paid to holding companies, often used to launch MBOs.

Older, industrial concerns are generally favoured for MBOs above callow, high-technology ones. An established track record, firm links with suppliers and customers, and carved out market niches, as well as stable cash flow, low investment and high depreciation make mature companies more suitable.

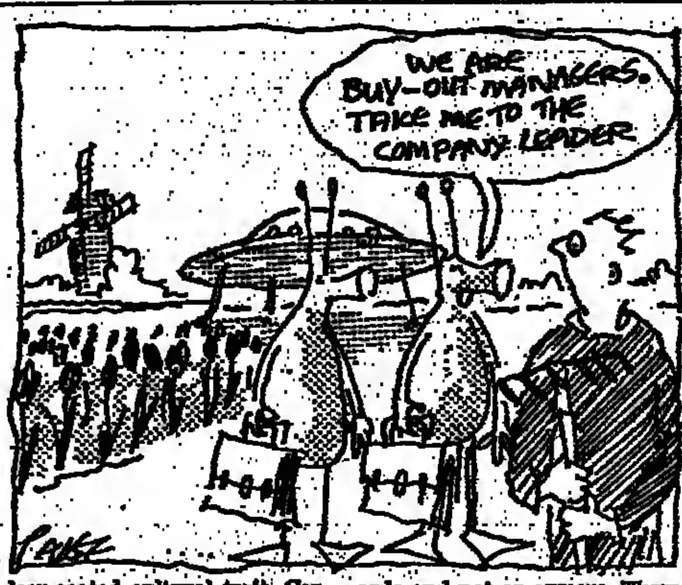
NKF Kabel makes cable and cable systems for the energy and telecommunications sectors and previously belonged to Philips, the Dutch electronics giant. In 1986 Philips decided to pull out of those cable sectors to concentrate on fibre-optic cable and spun off NKF in a Fl125m leveraged buy-out, keeping 20 per cent for itself. Since then NKF has lifted its earnings, floated a bond on the official stock exchange and halted job losses.

The October 1987 stock market crash has had much less of an effect on MBOs than was feared although growth has tapered off. A similar flattening is seen in venture capital.

Competing companies interested in a takeover are increasingly vying with managers for promising disposals. Acquisitive companies often are armed with more money and resources than managers.

For example, big UK companies such as Hillsdown are snapping up small Dutch family-owned distributors of fresh produce. This competition is expected to increase in the run-up to 1992 as mergers and acquisitions gather pace.

Dutchmen do not like to borrow so leveraged buy-outs, by definition, cut right across a



deep-seated cultural trait. Corporate managers rarely own much stock in the companies they run, much less employees. Flagrant displays of wealth – and even worse, efforts to accumulate it – are frowned on.

"Part of it is Calvinism," says Mr J C Kingma, a director of Venture Capital Investors. "Dutch managers are accustomed to serving as good stewards and not as owners. There is an uneasy feeling when buying out a bourse-listed company that management might be using inside information."

Because MBOs are still a relatively young phenomenon in the Netherlands there have been no big failures.

Laura Raun

A lot of money is chasing deals in the US

Difficult but popular

A LOT OF money is currently chasing few deals in the US leveraged buy-out market which makes the LBO game an aggressive and difficult one to play. But it shows no signs of losing its popularity.

After grinding abruptly to a halt after last year's stock market crash — leading several commentators to ring the death knell of leverage and the junk bonds that finance it — LBOs have been very much in the news this year and the buy-out market has heated up as the stock market has sunk into its current torpor.

The value of LBO deals mooted this September has already exceeded the LBO volume for the entire year of 1985 and this frenetic pace shows few signs of letting up. If anything, the LBO market is set to become even more cut-throat and highly leveraged as debt-hungry investors seek out a declining number of ripe deals.

Indeed, Kohlberg, Kravis, Roberts & Co, the doyen of LBO firms, stands poised to make a hostile bid for Kroger, the giant Cincinnati-based food retailer, after the company has firmly rejected separate bids from KKR and the Haft family.

This would be an unprecedented step for KKR — which has traditionally acted as a white knight stepping in to help a company's management rescue it from a raider — and would take the LBO game into a whole new sphere.

The metamorphosis of KKR itself is indicative of the LBO scene in general. Founded by three colleagues from Wall Street investment firm, Bear Sterns, in 1976, KKR's LBO activity has been such a success that it now controls a sizeable chunk of corporate America — some 23 companies in all — including such heavyweights as Beatrice, the diversified food group, and the biggest US glass-packaging maker, Owens Illinois.

The firm has gone from having to struggle to raise the debt financing it needed to controlling a war chest of some $5.6bn for new deals, which, with a leverage factor of 10 to 1, gives KKR funds enough for over $50bn in new purchases. The LBOs have made the fortunes of the firm's three founders.

However, as newcomers have crowded the LBO scene, and deals have become harder to find, KKR has experienced its internal differences on where to go from here. The buy-out firm has started to adopt a much more aggressive stance than it previously favoured — leading to the defection of one of its original leaders to found a more traditional set-up.

KKR has started to build up "toeholds" in prospective buy-out candidates by acquiring small stock holdings in them. In March, the firm announced it had acquired a 4.9 per cent stake in oil giant, Texaco, which it said it was considering raising to 15 per cent. These toeholds could speed the progress and lower the cost of potential management buy-outs, KKR reasons, but it also injects a much greater degree of hostility into the LBO market.

KKR has changed its approach as it has faced intense competition in the LBO market. The growing pool of capital that is swirling round the market is bidding up prices for LBO candidates and inflating the value of some companies far beyond their worth.

Wall Street was surprised in May by the high price KKR agreed to pay in the management buy-out it arranged for Duracell, the battery-maker, from the Kraft food group. The bids for the battery-maker ranged by around $500m from top to bottom with KKR agreeing to pay $1.8bn.

The frenetic activity that currently characterises the LBO scene is partly prompted by a last-ditch attempt among investors to buy into LBOs in the remaining months of the Reagan Administration, which has done little to curb the megadeals of the last eight years. A less *laissez-faire* Administration may not treat the leveraged market so leniently.

Buyers in an LBO typically make their money by having access to huge profits made by their debt-ridden target company, paying off debt by stringent cost-cutting and the sale of assets. However, this loads companies with huge levels of debt that they may have difficulty paying off should economic conditions change.

In July, the first LBO failure — the $1.2bn bankruptcy of Revco Drug Stores — did little to dampen the LBO fever. Indeed, there currently seems to be no limit to the amount of leverage some companies are willing to take on.

A recent $1.2bn offer for Playtex International involves the company's management in a bid for a firm they already own, taking Playtex through its third LBO in as many years. The purpose of the deal is to load the company with more debt and to cash in huge profits from the last LBO. By adding another $400m in debt to the company, the LBO will offer equity investors from the previous buy-out a gain of $500m on their initial outlay of just $10m.

The Playtex re-leveraging marks the latest in a second generation of buy-outs of companies which have begun to pay off the debts of their initial LBOs.

However, in any economic downturn, the most leveraged companies will suffer the worst effects, because of their huge interest payments. While the economy continues to be healthy, the LBO scene continues unabated, but in any slowdown or recession, many highly leveraged companies could slide into bankruptcy, slashing the value of the companies' publicly-traded junk bonds held by mutual funds and savings institutions.

At the same time, another significant downturn in the stock market, could make it more difficult for leveraged buy-out funds to sell off companies or divisions in order to raise the cash to pay off debt. Furthermore, junk bond investors with some $37bn of the high yield securities issued to finance LBOs are not proving sympathetic when companies miss debt payments.

Deborah Hargreaves

Top 20 US leveraged buy-outs

Bid announced	Target company	Investor group	Amount $ billion	Status
16/10/85	Beatrice Companies	Kohlberg Kravis Roberts	6.2	Completed
27/07/86	Safeway Stores	Kohlberg Kravis Roberts	5.7	Completed
12/04/87	Borg-Warner	Merrill Lynch	4.2	Completed
03/07/87	Southland	Salomon Bros & Goldman Sachs	4.0	Completed
02/02/87	Viacom International	National Amusements	3.9	Completed
07/03/88	Montgomery Ward	G E Capital & Kidder Peabody	3.8	Completed
21/10/85	R H Macy	Goldman Sachs	3.7	Completed
11/12/86	Owens-Illinois	Kohlberg Kravis Roberts	3.6	Completed
22/06/88	Fort Howard Paper	Morgan Stanley	3.6	Pending
15/09/88	Hospital Corp of America	Morgan Guaranty Trust	3.3	Pending
21/05/84	Esmark	Beatrice Foods	2.7	Completed
19/08/88	Wickes Companies	Drexel Burnham Lambert	2.7	Pending
21/05/87	Burlington Industries	Morgan Stanley	2.6	Completed
17/03/88	American Standard	Kelso	2.5	Completed
22/04/85	Storer Communications	Kohlberg Kravis Roberts	2.5	Completed
16/07/87	Jim Walter	Kohlberg Kravis Roberts	2.4	Completed
17/12/87	Lear Siegler	Forstmann Little	2.1	Completed
10/03/88	Colt Industries	Morgan Stanley	2.0	Completed
22/04/87	Supermarkets General	Merrill Lynch	1.9	Completed
27/06/86	Fruehauf	Merrill Lynch	1.8	Completed

PROFILE: REVCO

Fatal consequences of debt

WHEN REVCO D.S. declared bankruptcy in July, only 19 months after a $1.3 bn management buy-out, the 2,000-store drug retailing chain raised the spectre of collapsing leveraged buy-outs throughout the American economy. "Where junk bonds are concerned, there will be many more 'Revcos'," declared Theodore Forstmann of Forstmann Little & Co., an investment bank.

But any pause Revco gave the market was soon overwhelmed by more activity. In two weeks in September alone deals were announced committing more money to management buy-outs than was raised in all of 1985.

To be sure Revco suffered from a constellation of unique circumstances, including an overconfidence that may have warned others. But it also showed that errors can have fatal consequences when a company is burdened with the kind of debt needed for a management buy-out.

The prospectus Salomon Brothers prepared for the December 1986 Revco deal assumed a profit increase of 42 per cent in 1988 on increased sales of 13 per cent to cover the $140m annual interest payments. In the event, sales rose only 7 per cent and the company lost $59m in its fiscal year ending May 31, 1987 and nearly $100m in 1988.

When it skipped a $46m interest payment in April, Mr Boake A Sells, the company chairman, feared that suppliers would withhold goods for the all-important Christmas season. "If they leave me, I'm Chapter 11", he admitted, referring to bankruptcy proceedings. In the event, bondholders pulled the plug on July 28 when they refused to postpone demands for the missed interest payments, as a prelude to a recapitalization being organized by Drexel Burnham Lambert, which had replaced Salomon as the company's bankers.

Revco's problems were accelerated but not caused by the management buy-out. While it was known as a high-flying retailer that had enjoyed 20 years of uninterrupted growth, going private was in some ways an effort to fend off difficulties.

In 1983, the company's shares plunged on news that its Vitamin E supplements were implicated in the deaths of 38 infants. Fearing takeover, Mr Sidney Dworkin, the then chairman, arranged the take-over of Odd Lot Trading, a 70-store chain of highly discounted discontinued or overstock merchandise. The $113m deal soon turned sour when the Odd Lot principals, Mr Bernard Mardin and Mr Isaac Perlmutter, who had been close friends of Dworkin, accused Dworkin's son Elliot, a Revco buyer, of overpaying for unneeded merchandise. The young Dworkin and the Odd Lot executives all left the company. Revco could not handle the Odd Lot business, finding itself saddled with millions of dollars in unsold merchandise, including $35m in video game cartridges.

The management buy-out turned out to be more expensive than anticipated when a rival bid from Herbert Haft forced the management group to raise its bid from $36 to $38.50 a share. Salomon confidently predicted that the deal would be financed from selling the non-pharmacy business like Odd Lot, even as the company opened 100 new stores in two years.

Faced with greater competition from other retailers, including supermarkets which started to carry drugs and vitamins, Revco changed its mix of merchandise. It moved into televisions, VCRs, and self-assemble furniture. None of the non-drug businesses were sold, and Revco changed its strategy from "everyday low prices" to weekly specials.

Pushed at a board meeting to accelerate the needed asset sale, Mr Dworkin lost his chief executive post in March, 1987. Mr William Edwards, his replacement, started re-arranging the stores to put the prescription dispensing at the back and lure customers through the stores, a major change that demoralized staff, cut customer loyalty and undermined the Christmas sales effort.

As the problems mounted, banks reduced the company's credit line, further stretching the resources needed to stock shelves and pay bondholders. Short-term solutions sacrificed customer service to debt service. The company reduced its drug inventory and eliminated staff training. When it mounted a major advertising campaign to announce new merchandise, it did not have enough inventory to meet customer demand.

Another management change in June 1987 brought in Mr Boake Sells, former chairman of Dayton Hudson Corporation, the book and department store chain. He admitted, "I didn't understand the cash flow problems of Revco during the recruiting process". In July, Magten Asset Management Corporation, a company that invests in potential turnarounds like Wickes Cos. and Penn Central Corp., bought just over 13 per cent of Revco bonds at 50 per cent of their face value. Mr Tally Embry, managing director of Magten, helped push the company into bankruptcy when he refused more time for interest payments, telling management: "If Revco can't pay the interest on these bonds, I'm coming to take the house. I own the company."

The company has improving prospects for emerging from bankruptcy. Mr Sells is going back to the core dispensing business, reducing the number of stores, and offering more fitness and health items under the slogan, "Look good, feel good". He is improving the inventory control system, while establishing a new $145m line of bank credit.

Mr Dworkin, the former chairman, now runs a chain of seven discount stores with his two sons under the name, Sid's Get It For Less, while working on a book on the Revco saga.

Other management buy-outs would hardly expect to face the same circumstances that torpedoed Revco. But even without the such mistakes, there is still the question of whether an economic downturn would put similar pressures on other highly leveraged companies caught in a squeeze between bond holders and suppliers.

Frank Lipsius

Australia is expecting a buy-outs surge

New funds set for action

ALTHOUGH it has severely lagged behind its US and European counterparts so far in the 1980's, the Australian management buy-out industry is signalling that its time may be about to arrive.

Inspired by the US and European buy-out boom, and seeing opportunities in the aftermath of the 1987 share crash, a handful of specialists have established themselves to take advantage of an expected surge in local MBO deals.

While Antipodean entrepreneurs have often been at the forefront of innovative financing and acquisition techniques, so far this has not been true of MBOs. Less than 10 major deals, worth a total of about A$420m, have been done in the past 18 months (see table) – a fraction of the flood of deals that have made MBOs a phenomenon elsewhere. Yet local practitioners are supremely confident that the Australian floodgates are about to open.

They have used the comparative quiet to learn from overseas and develop their infrastructure. The most visible recent activity has involved the launching of two new dedicated MBO funds, seeking a total of A$150m, mainly from institutions.

Dominguez Barry Samuel Montagu, (DBSM) the local merchant bank controlled by the UK-based Midland Group, raised A$50m in June in a vehicle called MBO Capital Investors, and the Fulcrum Group, linked to US Bank Security Pacific, is seeking A$100m in a fund called Fulcrum 11.

These initiatives are in addition to two funds already in operation. One is called Fulcrum Media, now operating what is probably Australia's largest regional television station at Newcastle. The other is run by the Byvest group and linked to the country's second biggest life office, the National Mutual.

The US-controlled Citicorp group is also active in the area, and has access to funding of at least A$100m while Blecapital, joint venture between major Australian bank Westpac and UK-based Investors in Industry,(3i) has also funded a number of smaller MBO deals.

So far, these organisations have been competing for slices of a small pie, a position largely explained by two factors – the peculiarities of Australian financial markets and the timing of the local thrust into MBOs. Mr Tim Downing, a director of Sphere Capital Advisors, manager of the Fulcrum funds, says his group started getting interested in the Australian MBO business in 1986-7, realising that the then share boom had to crack.

"We faced an initial situation where a lot of the best targets had already been picked off by raiders," he says. "In the ones that were left, we faced also problems competing with corporate raiders who were often able to use their own inflated paper to sweeten deals.

"We thought the prices being paid were high and we saw many of the entrepreneurs who were making most of the acquisitions as themselves having precarious structures with a lot of debt, but often a number of minority positions which produced low and inconsistent cash flow."

But Mr Downing says that even though post-crash price earnings ratios are more attractive, there are still some significant hurdles for local MBOs to jump. "The regulatory framework In Australia can cause problems," he says. "Information from public companies In Australia is not required to be as extensive as in the US, and unlike the US, companies here are generally prohibited from funding the purchase of their own shares.

"But more importantly, Australian interest rates are three or four percentage points higher than those prevailing elsewhere, so financing deals with companies on similar P/E ratios is more expensive here. And the Australian market for mezzanine funds (junk bonds in the US) has also been slow to develop in Australia's thin capital market."

Australia MBO deals 1985-1988

	Value (A$m)	Date	Adviser
NBN TV	95.0	Sept 87	Fulcrum
Orlando	80.0	Jan 88	DBSM
JRA	65.0	May 87	Byvest
Pillar Pacific	37.5	Jan 87	DBSM
Automotive Components	35.0	Sept 86	Citicorp
Clutha	30.0 est.	Aug 85	Capel Court
Austoft	19.0	Aug 85	DBSM
Prok	19.0	July 88	DBSM
Jasco	47.0	Sept 88	DBSM

Several banks are prepared to put up increasing amounts of mezzanine funding

These comments are echoed by Mr Ian Wilson, a director of DBSM, who adds that although his group has now facilitated five of Australia's biggest MBOs, it has looked seriously at more than 50 deals in the past two years, but often just couldn't match the price offered by raiders.

But both specialists believe the climate for MBOs is changing for the better. "Post-crash P/E ratios are much more attractive and competition from the raiders and cash-box companies (vehicles floated purely on the promise that subscriptions will be invested in take-overs) has virtually dried up," says Mr Wilson. "And there is much more money available for deals."

Wilson describes recent changes in Federal Government rules on the banking systems' capital adequacy requirements as the most significant banking development since deregulation in the early 1980's. Most importantly, he believes MBOs will be one of the areas most affected. "The banks are now much more willing to offer mezzanine-type funding because the new requirements simply force them to get their returns up," he says.

"Mezzanine funding generally offers a premium of about 4 per cent over the bank bill rate, compared with lending to major corporates which might yield one or two per cent over the bill rate. I've had talks with several banks who, now that they are not funding so many listed entrepreneurs, are prepared to put up increasing amounts of mezzanine funding, especially as this usually also entitles them to some equity."

The Fulcrum 11 fund tends to prove this point as it incorporates a linked but separate mezzanine fund led by an offshoot of the Bank of New Zealand. Mr Wilson says perhaps the most important change of all is that Australians are only just starting to believe that successful MBOs are possible.

It is a chicken and egg situation where advisers can point to only a handful of small deals which have seen investors have exit at high profits. Until some bigger, more conspicuous deals are consummated, many investors may remain unconvinced about the technique. So a large part of the MBO practitioners' job is still to educate Australian business about the logic of buy-out techniques.

Often the biggest problem for owners and managers is psychological. A prime example is last year's A$1.7bn take over of ACI International by BTR-Nylex. In essence, the highly-leveraged deal used to buy the company was initially put to Mr David Brydon, the former ACI managing director, as a management buy-out, but was rejected. Mr Brydon then saw almost the same deal used by an outsider to put him out of a job.

In a much smaller recent transaction, the A$5m purchase of a small part of Alcoa of Australia's business by Unalex Pty., the buyers went to great lengths to hide their identity from the vendors for fear they wouldn't deal if they knew the sale was to management.

Mr Wilson sums up why this must change in simple, if cynical terms. "Essentially, we're catering to the greed factor," he says. "This year DBSM realised its investment in its first MBO, Austoft Industries, for almost 20 times its initial outlay after only 18 months."

Bruce Jacques

PROFILE:GLASS GLOVER

Lessons of an in-house bid

MANAGEMENT buy-outs take many forms. But the management bid for a public company is arguably one of the most controversial variations on the theme – posing the sort of problems well-illustrated by the case of Glass Glover, a medium-sized fresh fruit grower and distribution company.

In March this year, Glass shares jumped 65p to 250p on news that the company had received a bid approach. Yet anyone combing the fresh food/distribution sector for likely buyers found no takers – the likes Albert Fisher, Hillsdown, Christian Salvesen and Geest all quietly ruled themselves out of the action. A few weeks later, the answer emerged: a recommended bid was being made by a new vehicle, called Dryvale, led by four members of the company's management.

That, in itself, was somewhat surprising. Management bids for quoted companies have been a fairly infrequent occurrence in Britain and have a not-entirely happy record. Indeed, the whole concept had a dismal start in 1985 when institutional shareholders vetoed a near-£50m buy-out bid at cigarette machinery maker, Molins.

Since then, there has been a management bid for engineering group, Haden, which was already facing an unwelcome offer from conglomerate, Trafalgar House. In 1986, the management of USM-traded Air Call, made a successful cash or shares offer for the radio communications group. And, more recently, Mr Harry Goodman has taken the holiday group, International Leisure private, with a pure cash offer.

Perhaps, given the rip-roaring bull market, it is not surprising that so few transactions should take place. While shares trade on heady multiples, the value to a company of quoted paper – for transactions, cash-raising and so on – is quite obvious and funding for a management bid that much more difficult. In the wake of the October crash, the appeal of a quote is somewhat less evident, and certain drawbacks – the need to meet external shareholders' expectations with steadily rising income and earnings, for example – spring to the fore. In many ways, then, the Glass bid could be viewed as the start of the new trend.

Here, though, there were complicating factors. True, the shares suffered fairly badly in the crash, falling from a high of 340p in May and over 300p immediately ahead of Black Monday to under 180p. But they then recovered marginally over the Christmas months, before fading to a low of 165p in February following the publication of figures for the year to end-September 1987.

The figures were anything but rosy. The pre-tax figure improved by 18 per cent to £2.75m but only thanks to a £1.58m exceptional profit on property sales. Earnings per share slipped from 14.93p to 14.58p. That said, dividends rose modestly and although the first six months of 1987/8 were described as poor, Glass held out the prospect of a more satisfactory second half. It had behind it about a decade of steady, if undramatic profit growth.

Despite the failing share price, the company maintains that thoughts of a management bid did not surface until it received a tentative approach from another company. The company's finance director, Mr John Bingham, was a natural party to those discussions and, in the light of board's willingness to at least listen, asked for permission to look at the possibility of a management bid. The other prospective bidder eventually backed off, but by then the management team had formed its own proposals.

The Dryvale offer was 240p a share in cash, and 117.5p per preference share. Together, they valued the total share capital at £47.2m. Funding for the offer – arranged with the help of Schroder Ventures – adopted a typical management buy-out structure: £1.4m of ordinary equity, £14.8m of preference shares, £9m of mezzanine loan stock and a Standard Chartered bank loan facility of up to £30m. The bid had the backing of Glass board, and the Glass family which held around one-fifth of the company's shares.

The problem which Glass Glover encountered, however, was institutional resistance. Management bids have long been viewed with some scepticism by many institutions, on the grounds that the bidder must inevitably know more about the business than external shareholders and it is, therefore, very difficult to tell whether the bid premium offered is a fair one.

Also, there is question of why the same management strapped with a fair amount of additional debt will be able to run the same business so much better in the private sector. In Glass's case, it looked as if the additional annual interest charges would roughly equate to the company's recent profit levels.

However, the resistance was far from whole-hearted, especially after Glass emphasised that the trading picture – far from improving – was actually worsening. "In recent weeks, important developments on which our expectation of recovery depended, have been further delayed and uncertainties regarding our future are proving to be an impediment to our attempts to secure new business," argued the chairman, Mr Alick Glass. By the early May closing date, Dryvale had comfortably passed the 50 per cent mark and declared the offer unconditional.

But it was another two months before Scottish Amicable, the Glasgow-based investment institution and Glass's largest non-family shareholder – it held nearly 10 per cent of the ordinary shares and 12.6 per cent of the preference – finally consented to the offer. The shareholder, quite simply, did not think that the price offered by Dryvale sufficiently reflected the company's prospects. Meetings and discussions ensued, but eventually Dryvale set a final closing date – beyond which Scottish Amicable could only hang on as a minority shareholder.

When it finally conceded – just ahead of the closing date – that its own clients would not be best served by further resistance, Scottish Amicable said that it hoped its stand would serve as a warning that it would not be a "pushover" in such cases.

Nevertheless, institutional attitudes and the precise pricing must now be factors uppermost in the minds of other managements considering similar bid moves. Enthusiasm on the management side does not seem to be lacking: since Glass Glover, there have been a number of companies which have suggested this is under consideration. Blue Arrow, Chrysalis, and most recently, Prestwich Holdings are looking at it while Richard Branson's Virgin Group earlier this month unveiled its buy-back terms.

But, as Glass Glover demonstrates, structuring an acceptable deal and actually pushing it through is not always that easy.

Nikki Tait

Activity in the North is increasing again

When equities are flat

MR COLIN Chadburn is the local director of 3i's office in Newcastle. He tells the tale of a management team in the North-East which failed to get backing for its attempted management buy-out but suddenly became attractive when the buy-out was partially transformed into a buy-in.

What happened was that the team was short of some key players and its members did not between have a full enough range of managerial skills. When people with exactly the right credentials turned up looking for a business to buy into, the team became worth backing.

The story is instructive on several points about management buy-outs in the North of England. There have been plenty, possibly hundreds, in the last few years but whether they can take place at all has much to do with where in the North they are.

For the North is not a homogeneous cluster of communities somewhere above Stoke-on-Trent. It is three economic regions — the North-West, Yorkshire and Humberside, and the North-East and Cumbria. Not only is each different from the others, but there are considerable variations within each one, between sometimes powerful sub-regions.

The key to what might be called the buy-out potential of each sub-region is economic structure. The central areas of the North are based on the counties of Greater Manchester and West Yorkshire and run roughly along the M62 from its junction with the M6 in the west to the A1 in the east.

This is where the economic basa is broadest, apread between many industries and balanced mixture of different-sized companies. There is a preponderance of medium-sized to small businesses, many family-owned, where managements possess all the skills needed to run an enterprise.

The outer areas of the North — and particularly Merseyside and the North-East — have narrower bases. Large industries were once predominant, and there were too few of them. A preponderance of big employers encouraged dependence among the general workforce, not entrepreneurship. Regional aid policies of the past compounded this by encouraging branch factories. Mr Chadburn says that most branch factories are not good candidates for buy-outs. They will usually be strong on production management and cost accountancy, but weak on sales, marketing and strategic planning.

The good buy-out has a balanced team, and these are more likely to be found along the central section of the M62 corridor, where there are hundreds of businesses turning over about £5m a year and making about £750,000 a year in pre-tax profits.

There are exceptions to the rule but the position is underlined by Mr John Wall of Price Waterhouse's Newcastle office. The stable or emergent medium-sized business in the North-East has a turnover between £3m and £5m and makes between £300,000 and £500,000 pre-tax.

He recently analysed corporate transactions — sales or acquisitions — which had been reported by the region's newspapers during the last few years. There were 174, but only eight were management buy-outs. Some had gone unreported but checks with Northern Investors, the regional venture capital fund, and 3i revealed only 10 more.

This contrasts with the experience of Rickitt Mitchell and Partners, the Manchester finance house which can claim with some justification to have invented the corporate finance boutique now being copied in the City.

Rickitt Mitchell's most conspicuous attempted deal did not come off — it advised the management of Land Rover on its attempt to buy out the business — but it already had a wealth of experience behind it. It has acted in 15 successful buy-outs in the last three years, nearly half of them in the increasingly buoyant North-West and most in the early part of the period.

Buy-outs were less popular generally last year when the bull market was roaring away because it gave owners an inflated idea of the worth of their businesses. The crash a year ago restored realism and Mr Peter Rickitt says that buy-outs are now coming back strongly.

He says: "The stock market looks like being flat for a couple of years and buy-outs will provide a means of selling. There will also be scope for de-listings as managers of public companies buy them in. These managers are fed up of with the hassle factor associated with being public company.

"However, the reaction of fund managers will be crucial. They are unhappy about share prices but if the management tries to buy out they think they are missing something and become very hesitant about selling their holdings."

He has also discovered a cycle in the way the buy-out market moves. It starts with medium-sized companies raising about £500,000 of development capital and seizing some sort of opportunity to expand. Sale or flotation follows three years later, depending on the existing status of the company and the state of the stock market.

Thus, buy-outs fell off last year when price to earnings ratios were running at 18. A more realistic pricing level now obtains. "Rule of thumb is that private companies sell at five or six times pre-tax profits, giving a P/E of 7.7 to 9," Mr Rickitt says.

If the price is right and the management team has a full complement of skills, "there is no trouble in raising money for MBOs," he says. About 40 per cent of deals have been based onclearing bank finance in the form of loan capital.

Mr Rickitt has also evolved an interesting *modus operandi* for buy-outs. He says: "We think there are rules and people get it wrong. Managers are encouraged to put too much of their own money in. This is crazy. We want their minds on their businesses, not paralysed by worry about losing their houses.

"The secret of getting the buy-out team working well and succeeding is not to have too much from the managers. Our experience has been that you can stand a much larger degree of leverage — borrowing — than people think.

"From our own point of view we have also felt it right to make no charge for failure. Land Rover cost us £22,000, for example. Some people do charge managers who fail to buy out and many managers never think of abopping around for money and negotiating. It is sensible they get independent advice."

Good advice will always include a rigorous assessment of the management's teams strengths and weaknesses. In some parts of the North that may lead to a buy-in or some element of it to ensure that the strongest team wins.

There is likely to be increasingly more of this. 3i has witnessed 70 management buy-ins in the North in the last three years and provided 27 per cent of the finance.

Mr Wall says that Price Waterhouse's experience is of an increasing trend to buy in.

He says: "I am seeing more and more evidence of entrepreneurial management coming back to the North-East. The deal flow is increasing all the time. This is very important because it is bringing good management back into the area.

"People coming in have included the marketing director of a large heavy engineering company where the management failed to complete an MBO, a man running the European operations of a fast moving consumer business who wanted to do his own thing and the chairman of quoted company who felt life had lost its fun and wanted to build something up all over again."

It is not the importation of new management that is always needed, bowever, but the change in the status of the managers to owner-managers and all that goes with it.

Tbe North-East's most well-known buy-out was at Swan Hunter, which broke away from the nationalised British Shipbuilders in 1986. The price of £5m was a bargain given the £3m-plus of new computer equipment which had been recently installed but the problems were enormous.

The company, with no cushion of Government subsidy to fall back on, had its mind concentrated further by not getting hinted-at orders from the Ministry of Defence. It is now slimmer, much more efficient through new, flexible working practices, and has agreed its second two-year pay deal.

Management is managing and Mr Alex Marsh, the chief executive, saya that its financial backers, led by Globe Investment Trust, are pleased with progress.

Ian Hamilton Fazey

MANAGEMENT BUY-OUTS BY REGION*

Regions	Number	Value £m	%
South East			
London	26	1,751	38
Rest of SE	36	1,464	31
West Midlands	8	208	4
Yorks & Humberside	7	180	4
South West	8	346	8
East Midlands	4	135	3
North West	4	114	2
North	3	192	4
Scotland	3	52	1
Wales	2	193	4
East Anglia	1	52	1
	100	4,687	100

*All deals worth £10m or more (at 1988 values) completed between 1980 & April 1988

Source: Peat Marwick McLintock

PROFILE: MACCESS

Second time around

MANAGEMENT buy-outs may be the financial technique of the 1980s but Maccess, the automotive parts distributor, is perhaps the ultimate MBO enthusiast. Its management has arranged a buy-out not once, but twice.

The dual MBO raises interesting theoretical questions. If the idea behind an MBO is to give the managers freedom from central control and greater incentive to perform, how much more freedom or incentive does the second MBO give the management than the first?

And is there as much potential for profit for those institutions who back the second MBO as for those who backed the original deal? A second leveraged buyout at Playtex, the US lingerie group, has prompted speculation that managers will continue gearing up with debt every few years until the whole structure collapses under the burden of interest payments.

Not everyone would agree there is more risk in a second MBO. Mr John Foster, a manager at the Leeds office of County Nat West Ventures, which put together Maccess's second buy-out said: "Wa analysed the deal from first principles. The company was significantly stronger than it was at the time of the first deal; it has performed very well and is very profitable."

Maccess' firat buy-out occurred in August 1986 when the Cleckheaton-based company arranged an MBO from Burmah Oil, as part of Burmah's strategic decision to concentrate on its lubricants and speciality chemicals.

Under the £10.5m deal, the management took 20 per cent of the equity and an institutional consortium, consisting of Charterhouse Development Capital, Citicorp, Murray Ventures, and Rothschild took the other 80 per cent.

The funding structure was split three ways. The institutions invested £4.7m in equity in a combination of ordinary and preference shares; management took around £300,000 of equity; and the balance of £5.5m came in the form of loans. Maccess management team had around 20 per cent of the equity; the rest was held by the institutions.

Following the buy-out, the company launched a variety of new products and services. Wheelbase was a retail and marketing package for petrol station forecourts; Contractline was a distribution service for superstores; and Carisma was a car accessories catalogue for motorists.

Tha company has also opened two new cash and carry outlets — in Manchester and west London — and early this year, Maccess made its first acquisition, Car-men Supplies, a chain of motor factors specialising in the supply of automotive products to garages and industrial users.

The net effect was that the group's trading performance lived up to the management's hopes. Profits increased from £1.8m in 1986-87 to £2.8m in 1987-88 ou turnover up from £50.8m to £69.1m.

Written into tbe original buy-out agreement was a provisiou for the management to acquire a larger shareholding in the group if it met certain performance criteria. When it became clear that the group had matched the criteria, the management was approached by a second consortium of investors prepared to fund a second buy-out.

After some discussion with the original investment group, the Maccess management went ahead with the new consortium. The second deal created an equity split virtually the reverse of the structure of the first deal. Now 72.5 per cent of the shares are held by the management and 27.5 per cent by the new investment consortium.

The structure of the second £9.8m package was £5.5m of funding in the form of equity from the institutions, £50,000 of new money from the management and £4.25m in the form of loans. The second deal brought in more management shareholders — around 40 now have holdings — and a share option scheme is being introduced to widen the net further.

Although there are no easy direct comparisons in terms of price per share, it can quickly be seen that the original institutional investors made a healthy profit. The second £9.8m deal bought out their equity stake, for which they had originally subscribed £4.7m.

The second institutional consortium consisted of County Nat West Ventures, Investors in Industry (3i), MIM Development Capital and Standard Chartered who ended up with 9.9 per cent, 8.25 per cent, 5.5 per cent and 3.85 per cent of Maccess' equity respectively. Standard also provided the loan finance for the deal, which put an overall value on the company of £20m.

After two buy-outs, Maccess has plenty of experience and Mr James Corr, the finance director, has this advice for any other executives contemplating an MBO:

"They should get good accounting and legal advice before they approach institutional investors," he says. "And they should aim for flexibility in negotiations so they have as many financing options as possible."

If Maccess' second MBO proves successful, then it could be the forerunner of many similar deals in the UK.

Philip Coggan

Management Buy-Outs by Industry*

Industry	Number	Value £m	Value %	Average size† £m
Manufacturing:				
Engineering	26	841	18	32
High technology	8	126	3	16
Wood	5	134	3	27
Paper	3	370	8	123
Chemicals	2	83	2	41
Textiles	1	12	—	12
	45	1,566	34	35
Retail and distribution	16	1,285	27	36
Construction and property	7	162	3	23
Insurance	6	115	2	19
MELT	6	526	11	88
Banking and finance	5	367	8	73
Transport	5	342	7	68
Food and agriculture	5	214	5	43
Business services	5	130	3	26
	100	4,687	100	40

† Average size is computed after excluding MFI/Hygena (£718m)

Source: Peat Marwick McLintock

PROFILE: GEMINI GROUP

A buy-in of quality

THE MANAGEMENT team of Clive Greaves, Richard Compton and Ray Wearn had all worked together for a number of years, at first at the Economist and later at Marshall Cavendish. Mr Greaves himself had spent 7 years in the US as President of the Economist, during which time the magazine's circulation increased fivefold.

In December last year, there came a time when Mr Greaves determined to branch out on his own. His objective was to generate long-term capital gain through an investment in the areas of publishing and direct marketing that he knew well. He approached County NatWest Ventures with the suggestion that they should back him in a management buy-in. They agreed to do, on the condition that he assemble a management team.

Having done so, Mr Greaves scurried about looking for an appropriate vehicle for his ambitions. After two false starts, the break came at a lunch at Henry Ansbacher, the merchant bank.

Mr Greaves arrived with a shopping list of desirable companies, and left with an introduction to the management of Quadrant, a company which embraces publishing and marketing services.

Thus the management buy-in was born. The previous owners were committed to keeping the company's two halves – publishing and marketing – together and it was with their endorsement that Messrs Greaves, Compton and Wearn came aboard in September this year.

The £4m deal was led by County NatWest Ventures, and backed by a number of other institutions.

Quadrant – the name of which has now been changed to the Gemini Group – consisted of two separate companies, Joint Marketing and Publishing Services and Print, Promotions and Publicity. There were no trading links between the two companies, although they shared premises and accounting overheads. The companies were owned 65 per cent by Philip Burley and 35 per cent by Tony Tanner.

The company made profits pre-tax and directors' expenses of £231,000 on turnover of £1.6m in 1987.

The former owners wished to safeguard employment, and so wanted to identify a buyer who would not hive off one or other of the company's halves. Robert Maxwell expressed his interest, but was deemed an unsuitable buyer.

Another crucial factor was Mr Burley's relationship with Mr Greaves. Mr Burley had intended to go to Spain and had arranged to hive off Marbella Life, one of the company's magazine's, to keep him occupied in his semi-retirement. As it is , he is staying on at PPP as managing director for another six months.

Prior to finalising the purchase price, CNWV obtained "in principle" commitments from four other institutions: Lloyds Development Capital, Grosvenor Ventures and 3i. The National Westminster Bank was also informally committed to providing the term loan requirements for the deal.

The 5 institutions provided £3.5m in a combination of equity and mezzanine finance, with a further £500,000 of term debt from the NatWest.

The structure was as follows: management ordinary shares: £150,000; institutional ordinaries of £600,000. There was £750,000 worth of institutional redeemable preference shares, together with institutional mezzanine of £2m.

Looking back on the experience of organising the deal, Greaves points to the necessity of having human skills as well as the financial skills needed to structure the transaction.

Although Mr Greaves ruled out buying a ropy company – albeit replete with turnaround potential – the main difficulty even with a company with a good track record was the paucity of information about the potential acquisition.

In these circumstances, it was important to strike up a good relationship with the vendors, in order to ease the flow of information despite the competitive situation.

As Robert Ashmead of County has observed: "It was vitally important for us to sell ourselves to the vendors as suitable persons to take responsibility for their 'baby'."

That they succeeded in doing this is obvious from the fact that Mr Burley put off going to sunny Spain for six months.

David Waller

SCOTLAND

Some significant deals

SCOTLAND IS not only the scene of a respectable number of MBOs in the past few years, but is also the home of three major players on the British MBO scene – Murray Johnstone and Charterhouse Development Capital, an offshoot of the Royal Bank of Scotland Group, as equity investors, and Bank of Scotland as a provider of loan finance. These organisations draw little distinction between deals which originate in Scotland and the greater number which arise outside it.

In Scotland itself the progress of the MBO roughly mirrors that of the Scottish economy: the deals are smaller, because most of the companies are smaller, and the speed with which they have emerged is slower than that of the UK economy as a whole, just as the Scottish economy – mainly because of the 1986 oil industry recession – was until recently lagging behind that of the rest of the country.

"I think the enterprise spirit has reached Scotland – people don't talk pessimistically now," says Mr Mike Pacitti, local director in Edinburgh of Investors in Industry (3i), alluding to doubts that persisted up to a year or so ago as to whether Scottish businessmen were taking all the opportunities available to them. "Quality managers here are as outward looking as anyone," he says. 3i participates in the largest number of MBOs in Scotland.

He adds: "There's been no quantum leap in MBOs in Scotland over the past three years but rather a steady growth. You have to remember that there are a finite number of situations where MBOs are possible." He points to the branch offshoots of major companies which the parent may prefer to close or transfer elsewhere rather than sell to their management and see them compete with the parent.

In early 1987, 3i earmarked £50m for MBOs in Scotland but has actually invested about £20m over the past three years. Mr Pacitti points out that whereas the size of MBOs in the south of England is soaring to astronomic levels, the record for the biggest MBO north of the border is still £10m – the size of the deal in early 1986 whereby the management of Exacta Circuits bought their Selkirk-based printed circuit board business from STC. Most Scottish MBOs are worth less than £3m.

Mr Pacitti acknowledges that a number of rising Scottish companies may have become shy about the eventual possibility of seeking stock exchange quotations following the saga of Babygro, but despite the importance to MBOs of an "exit" he does not think this is putting them off buy-outs.

Babygro was the subject of a buy-out – financed by 3i, British Linen Bank's Melville Street Investments and the Scottish Development Agency – from its US parents in 1983. Upheld as an example of the resurgence of the Scottish entrepreneur, it was floated on the stock exchange in 1987 capitalised at £18m. But this year it hit serious difficulties and was sold to a Cheshire sportswear maker, Robert H. Lowe, for only £4.4m.

At Bank of Scotland Mr Gavin Masterton, general manager for the East of Scotland, notes that deals have become more complex for the lender, since lending is now more likely to be based on cash flow of the business rather than its net asset value.

There have been some significant MBO deals in Scotland in recent months. At the beginning of this year 3i and the Scottish Development Agency – which is also a significant development capital operator – helped finance the £5m deal whereby local management bought Indy Electronics, since renamed ITEQ Europe, an Ayrshire company which assembles semiconductors, from its US owners and injected some new capital.

In April, 3i combined with Charterhouse Development Capital to enable Mr Bernard Reinhold to buy M. Reinhold from Dawson International in a deal whose value has not been disclosed. M. Reinhold markets and distributes Emreco knitwear and is now called Emreco.

In June, Charterhouse along with two of Murray Johnstone's venture capital funds assisted a combined management buy-in and buy-out at Burn Stewart, a specialised whisky distributor in which the owner sold to managers at the same time as a senior whisky industry figure bought in from outside to become managing director. The value of the transaction is said to have come close to the record set by Exacta.

Murray Johnstone recently financed a buy-out from British Coal of a small coal mine in Ayrshire to form Cavendish Coal, which will concentrate on the domestic coal market.

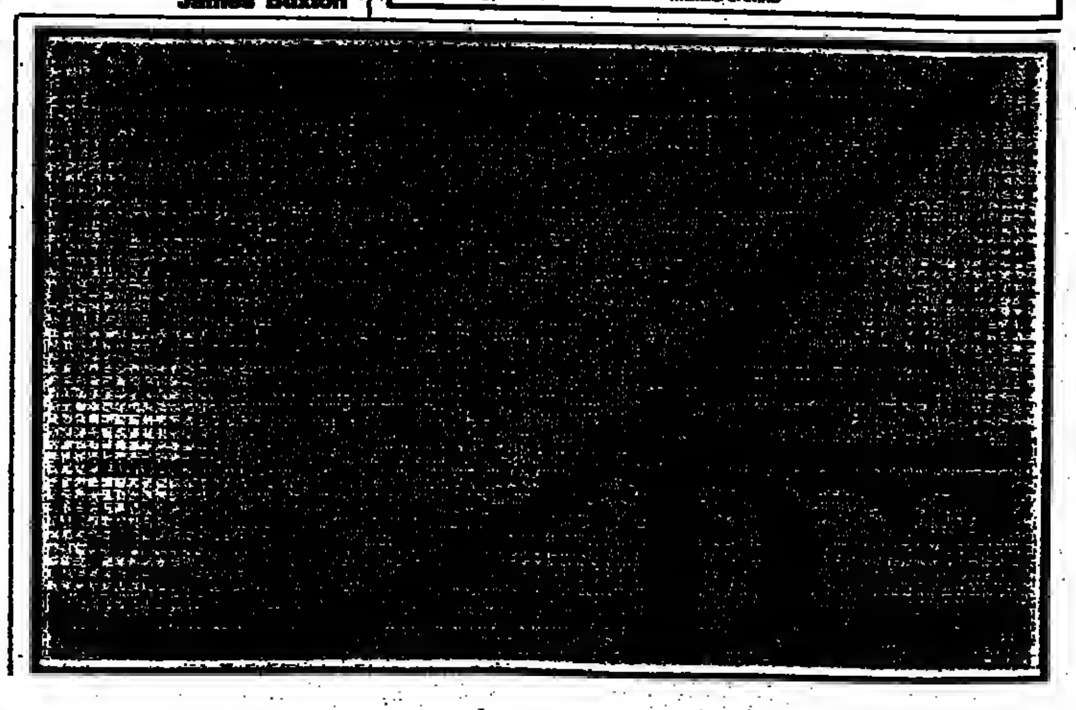
Mr Norman Murray, a director of Charterhouse Development Capital, says that MBOs are "a healthy sign for the Scottish economy. It keeps businesses local or brings back control from outside Scotland. That means that they provide business for local service companies, such as advertising, public relations, banking and legal services." He notes that Burn Stewart transferred its head office from London to Glasgow following the MBO.

Mr Robert Smith, Charterhouse Development Capital's managing director, says: "The MBO market suddenly picked up dramatically in March this year after the shock of the October 1987 crash and has been extremely busy ever since."

He believes that the effect of higher interest rates and the slack stock market may enable managements to buy-out their companies at a lower price than was possible before, with less competition from corporate predators offering paper. "The MBO wins by paying cash," he says.

Mr Peters at Murray Johnstone does not differentiate between deals involving Scottish companies and those in other parts of Britain. Murray Johnstone can marshall resources totalling £200m from Murray Ventures (which has invested in 40 MBOs since it was founded in 1984 and made a 40 per cent annual return on capital).

James Buxton



THE MIDLANDS

Taking a long-term view

THE EARLIEST buy-out that the Centre for Management Buy-Out Research in Nottingham has been able to trace occurred in Belfast in 1884. But, according to Mr Peter Williams of Investors in Industry (3i), the buy-out as we now know it was invented in 3i's Birmingham office 10 years ago. The problem to be overcome then was a Companies Act provision, since repealed, which prevented people borrowing on the security of the company they were buying.

Mr Terry Gateley of Peat Marwick McLintock believes that the character of Midlands buy-outs has changed since those days. In the recession, managers were buying ailing businesses at a discount as an alternative to closure. Now they may have to pay a premium over their company's value, and raise some mezzanine finance at higher interest rates to cover it.

The managers of Rover's computing arm, Istel, won after two rounds of bidding. (They also brought in 900 employees as shareholders.)

Mr Gateley says there is a confident air in the West Midlands. The problems were shaken out in the last recession, and there are an enormous number of skilled people in the companies.

"Four years ago, we always had to get trains to London. Now people are coming to us. They are looking for good cash-generating businesses that they are not going to get any shocks from."

Only one in 11 bought-out companies has been unsuccessful, compared with one in four start-ups.

Mr Gateley says that up to £25m to support a buy-out can be raised in Birmingham. Apart from national capital providers like 3i (whose Birmingham office has just helped finance its 100th buy-out) there are local ones such as Sumit, associated with Albert Sharp, the stockbrokers, and the council-owned West Midlands Enterprise Board.

Parent companies are now apt to produce sale memoranda, inviting bids for subsidiaries not part of their core business. Mr Gateley's advice to managers eager to buy is to produce their business plans swiftly and line up their financial backers, so they can offer a quick deal. One advantage of selling to managers is that there is less hassle over stocks and debtors.

However, one would be buy-out team was beaten by a £10m higher bid from another company. A competing buyer may be able to offer his own paper. He may also see the purchase as more valuable because he can transfer business to his existing factory.

Mr Keith Hirst, of Metsec which was saved by a buy-out from TI seven years ago, believes there has been a change in the motives of managers who buy their companies. Like the venture capital firms which back them, those now buying may be looking for a chance to sell their stake for a large sum when they float the company on the market in three to five years.

Dr Michael Wright of the Centre for Management Buy-Out Research points out that this is not necessarily bad. After a spell in Marbella on the sale proceeds, they may well be back to help run another firm.

The big players stress that the Midlands buy-out industry is all about people. Dr Mike Cunnell of Sumit, who once ran a division of Lucas Aerospace, says: "We spend a lot of time with the people themselves. We investigate what they have done in the past. Then we don't have to worry too much about the exit terms.

"We don't make a deal forcing people, like most of our competitors do, to go to market."

The managers at Nesbit Evans, the Wednesbury maker of hospital beds, brought in an outsider, Mr Gerard Wainwright, to head their £3m buy-out team. He thinks this helped because he was able to do the negotiating while the other 10 managers carried on managing. He also believes that the team leader has to assess how much cash his colleagues should put in. Failure must hurt but not be disastrous. "I don't think there is any joy in management not sleeping at nights."

Once good managers are identified, it is in the interests of the buy-out industry to get them owning and running a company. Hence the fashion for buy-ins. Sumit helped a team of five set up Wharfside Wine, to buy firms in the drinks trade. Dr Cunnell says: "They came from a variety of backgrounds. I saw them all together to make sure they did not niggle one another."

Buy-outs have been commoner in the West than the East Midlands, particularly this year. One Midlands buy-out in three is of a firm worth under £1m, perhaps a small business whose owner is seeking to retire.

Small firms take longer to reach a marketable size, and so are less popular with capital providers. The West Midlands Enterprise Board is prepared to wait seven to 10 years to get its money back. Mr Williams says that 3i also takes a long-term view, "but we are not going to invest equity to see a business stand still."

He believes the buy-out movement has saved some Midlands businesses that would otherwise have failed while enabling others to escape the constraints of their previous ownership.

A typical Midlands buy-out is of a company with possibilities that the previous owners were not able to exploit. Premier Brands escaped from Cadbury with ideas for instant Typhoo and one-cup teabags.

The United Machinery Group in Leicester was previously part of an American company that was taken over by another US company. The £80m buy-out involved acquiring 19 companies in different countries.

"We saw there was a potential in several places round the world, says Mr Neville Burton, one of four managers in the buy-out. We also had a good R&D programme that was beginning to develop interesting new machines. We will grow 15 per cent in turnover this year."

Partco, a Balshall Common-based supplier of motor vehicle parts, lost £1.25m in its last year with Burmah Oil. This year, the managers who bought it expect a profit near £2m.

Mr Harvey Delve was one of four managers who bought Simplex from GE of the United States. This year he and Mr Gerald Bartlett made an offer to Simplex for Power Centre Holdings, a Wednesbury maker of cable ducts for buildings. The other directors said: "We wish you well, but you must realise it is a commercial transaction."

Mr Bartlett comments: "Harvey and I developed a business plan over two nights. That really is the key. But you have to have a bit of good fortune as well. We decided we were prepared to offer a certain amount of money and we just kept going. An asset is stamina. We genuinely believed we could make the business more successful."

The buy-out has given new confidence to the 220 workpeople, because the key decisions are now being made on the premises.

Metsec at Oldbury began 58 years ago with a new method for rolling bicycle rims. By 1980 it belonged to TI, was involved in the ailing motor industry and was losing money. Management buy-outs were then few and far between, says Mr Keith Hirst.

With four colleagues, he decided to make a bid for the structural steel part of the business. "We went off to see David Haggett of Evershed and Tomkinson, the solicitors, and he took us to 3i. Eventually it meant us putting our houses up as security."

Before selling, TI cut the workforce from 750 to 180. It is now up again to 200, plus employees of new subsidiaries. Metsec helped to build the Nissan car factory. It uses fibre-optic cables to link the drawing office to machines.

It lost TI's services but escaped from its bureaucratic structure. Flotation in 1985 to raise money to buy the buildings gave Metsec a value of £12m. Turnover which was £5m in 1981 will be £50m this year.

Mr Cliff Hopkin, his son and a colleague offered a Swedish owner £50,000 for Venetian Blind Manufacturing, a Birmingham maker of blinds, canopies and awnings. "We were not making any money," says Mr Hopkin.

After 15 months, their offer was accepted. To Mr Hopkin's disgust, they were unable to persuade their bank to continue the overdraft without personal guarantees, and so they obtained £100,000 from the West Midlands Enterprise Board. Meanwhile, a man from another venture capital firm "treated us like small children."

What they had spotted was a growing demand for wooden blinds and pinoleums (woven wood from Paris). This accounts for a quarter of their turnover which is up 40 per cent this year.

David Spark

PROFILE: INGERSOLL ENGINEERS

A pioneer four-nation deal

IT WAS a single buy-out at a single price, and yet four companies – in four countries – were created. Before it was concluded, an eight-way conference call, involving participants in the same four countries, went on for 7½ unbroken hours – without settling the question at hand.

Little wonder that the heads of Mr Brian Small, managing director, and his colleagues at Ingersoll Engineers, management consultants to manufacturing industry, have only just stopped spinning.

The simultaneous and separate buy-outs of the Ingersoll consulting operations in the US, West Germany, Britain and France earlier this year broke new ground because of the complicated multi-national nature of the transaction.

The deal also highlighted the special complexities involved in mounting a buy-out for a service company of which the main assets are the potential buyers themselves.

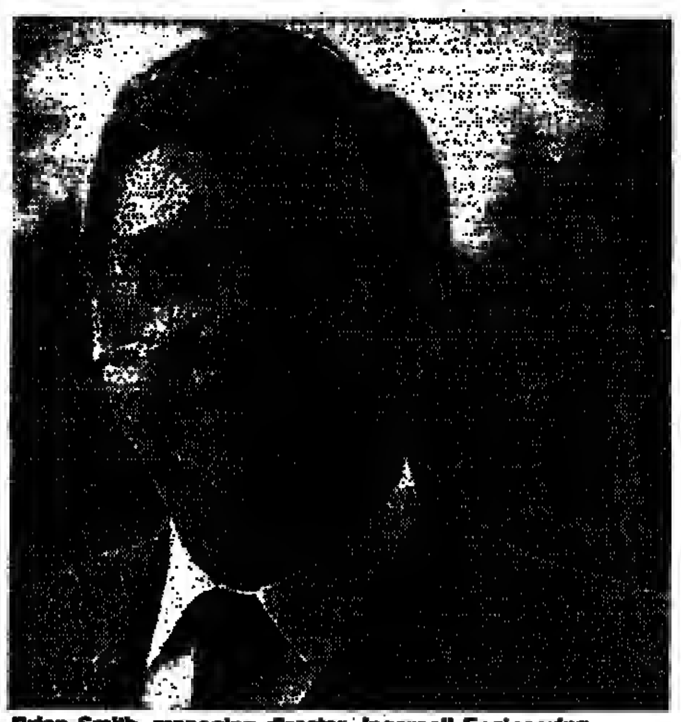
No less noteworthy is the role played by Berliner Handels-und Frankfurter Bank, the West German bank which provided virtually all the loan finance for the buy-out and holds a 25 per cent equity stake in each company.

Ingersoll Engineers was founded in the early 1960s as a sales promotion subsidiary of Ingersoll International, a privately-owned US company which also owns Ingersoll Milling Machine, a pioneer in automated transfer lines which traced its history to 1890. Ingersoll supplied the assembly line, for example, for Henry Ford's first manufacturing plant.

By the middle of this decade, however, it had become clear, Mr Small says, that "you don't sell products through a masquerade of an industrial consultancy. As we became more like management consultants, it became less logical to be a subsidiary of Ingersoll."

In 1984, a study group was created with top-level representatives from each office to improve international liaison and – somewhat less officially – to explore options for change. Taking its name from Talloires, a village near the French branch at Annecy, the forum decided by 1986 that a buy-out was the best solution.

Although the US parent was open to the idea, it put Ingersoll Engineers on the block to



Brian Smith, managing director, Ingersoll Engineering

ascertain the market price. Among those expressing an interest were several Big Eight accountants, as well as management consultants and one or two "corporate strategy" firms.

But the winner, for a few weeks in the summer of 1987, was none of these but the acquisitive French software company Cap Gemini Sogeti. Without warning, for CGS had never contacted them, Mr Small and his colleagues discovered that they had been conditionally sold.

"No management consulting firm would even have considered it without talking to us," Mr Small said. "So we quietly and systematically made it known to both sides that you can't sell reluctant people."

"Each person in the Talloires forum made it clear to the buyer and the seller that there was another option," he said. The UK office made an offer to buy itself from CGS. Others were more direct. As bluntly as contracts allowed, they let it be known that CGS could not necessarily count on their continued service if the deal went through.

"You can't sell a service company without the agreement of the people concerned – that's a fundamental rule," notes Mr Small. After six weeks, CGS pulled out. Although the precise buy-out price was not disclosed, the $10m-plus deal was worth not much more than half of what CGS had agreed to pay.

CGS had got its head start because the buy-out team had dallied before actively seeking a financial backer. "One of the underlying messages is: once you've decided what to do, get on with it," says Mr Small.

In each country, the consultants sounded out potential backers and, somewhat against the reputation of the US and UK as venture capital pioneers, the winner was BHF. As a German bank, it was comfortable with taking a continuing equity stake in the businesses.

"Our objective was not to buy the company and make a bundle reselling it," Mr Small says. "The British and Americans all seemed to be more interested in when they could get their money out rather than when they could put it in."

Mr Chris Burnham, director, concurs: "I think they were confused about an outfit that wanted to buy itself with a long-term objective rather than a get-rich-quick mentality."

The only other outside financial help came from the former US parent, which allowed Ingersoll Engineers to defer for several years the payment of somewhat less than 10 per cent of the purchase price. This was of symbolic importance as much as anything – to demonstrate continuity and to show BHF that it was not bearing all of the external risk.

Ingersoll Engineers was sold as a block and then divided up among the buyers into separate geographical companies. "The investing participants all wanted their rewards to be linked to what they controlled or influenced," says Mr Small.

Having agreed the total price, the buyers had to allocate it among themselves. BHF was the arbiter for this tortuous exercise, which had to assess such factors as the greater growth potential in the huge US market and the fact that the UK company was the only one to own a freehold property – Bourton Hall, a restored Regency manor house in 16 acres on the outskirts of Rugby.

Although each company is independent, they co-operate through the Ingersoll Engineers Group, which they own rather than vice versa, making financial contributions to its support in proportion to their turnover.

The four companies also went their own ways in terms of breadth of ownership participation. The French company, smallest of the four, was company-wide from the start, while in the US and West Germany, it is limited to the top levels.

In the UK, there were only 10 investors at the time of the buy-out, but shareholding has been opened to all employees.

As consultants, the new owners of Ingersoll Engineers learned more than they expected from their own buy-out. During the protracted process – not helped by having to deal with lawyers in four countries – Mr Small says one point was brought into sharp focus: "Each individual has his own personal aspirations in terms of the future."

Group consensus may be sufficient for incremental change, but each the desires of each individual - especially in middle management – must be considered in more dramatic changes such as buy-outs. It is a lesson which they are already passing on to their clients in industry.

Clay Harris

PROFILE: REEDPACK

A determination to invest

THERE WAS one thing Mr Peter Williams, head of Reed Manufacturing Group, would not compromise on when he and his colleagues decided to attempt a buy-out of the paper and packaging group from its parent Reed International.

He was determined that the group would not savage its capital investment plans or sell off any of its activities in order to pay off the high level of debt which would inevitably be needed for the buy-out. That meant the backers not only had to put up the money in the first place, but that they would have to be content to see the company remain highly geared, despite strong cash-flow, until it returned to the stock market in three or four year's time.

"The business plans prepared for RMG when we were part of Reed International were created to give us a sound and reliable future. They were valid then and they are still valid now. There's absolutely no reason why we should change them," Mr Williams told his employees when the deal was completed.

This made the buy-out an unusual one to sell to banks and investors. Normally backers expect to see a rapid repayment of debt. But RMG – which has since renamed the company, Reedpack – had plans to spend over £300m in the next five years. "It is the first time institutions are investing in a business with heavy capital expenditure projects," Mr Williams said at the time.

The price paid to Reed International was £608.6m and there was a further £22m needed to cover expenses. A total of £210m of equity was raised. Reed International put in £60m for preference shares which will be repaid when the business is floated or sold, and has the right to take 10 per cent of Reedpack's equity. Top management put in £2m and will be entitled to 10 per cent of the equity, rising to 20 per cent if performance targets are met. Institutions put up £148m, of which £3.5m is reserved to be sold to employees.

That left a need for roughly £420m in acquisition debt, plus a facility to borrow another £175m to cover capital expenditure and working capital requirements. Both were led by Chemical Bank. Thus the total amount of finance fixed at the time of the buy-out was over £800m.

Peter Williams of Reedpack

Even so institutions were eager to snap up the equity available – so much so, according to Mr Robin Hall of CIN Venture Managers, that buyers had to be scaled down.

The deal looked attractive to equity investors who will get a return of 35 per cent a year if Reedpack meets its targets and the shares are floated in four years time. The return will be higher if the float comes earlier.

The risk was that the high level of debt would become too much of a burden if the business's fast rate of profit growth slackened. RMG's profits before tax had risen from £15.9m in 1983-84 to £56.2m in 1987-88.

After the buy-out was completed on July 28, Reedpack quickly swapped its variable rate debt for fixed rate in advance of the rises in interest rates seen in the late summer and early autumn.

Just as important as the capital expenditure programme, was Reedpack's spread of businesses. The group has nine major areas of activity, based in the UK and the Netherlands. It would have been simple to sell of some businesses, especially since many have leading positions in their markets.

But Mr Williams believes that the spread of businesses gives Reedpack the balance it needs.

While some areas are highly capital intensive – such as the paper making side – others are not, such as Spicers, which is an office supplies company. Some are fast growing – such as parts of the plastics packaging business which is benefitting from the replacement of other types of packaging with plastic, and is only constrained by capacity limits.

Although Reedpack, along with the rest of the paper and packaging sectors, has been enjoying exceptionally good trading conditions, Mr Williams feels that the group would be largely immune from a slowing in economic growth.

Reed International had already invested heavily in updating its paper and packaging operations over the last 12 months, even though it was becoming apparent that publishing was to become the sole focus of Reed International's efforts.

Mr Williams is now sure that with the paper and packaging side of the business now owned, at least in part, by management and staff they will be much better motivated.

Maggie Urry

WALES

ASW shows the way

MANAGEMENT buy-outs have been gathering pace in Wales over the past three years but the jewel in the Welsh crown is undoubtedly ASW, subject of a £181m buy-out by managers, financial institutions and British Steel from its GKN/British Steel parentage last year.

Floated on the stock market in June the company last month reported an increase in profits at the half-way stage up from £10.2m to £13.2m on sales up from £172.3m to £196.7m.

Learning from the Japanese – 400 out of ASW's 3,100 staff have been to Japan to study how steel plants operate there – and exporting half its output to the rest of Europe, the company has been held up by Mr Peter Walker, the Secretary of State for Wales, Peter Walker, as an exemplar of management skills and dedication.

The fact that the management behind the buy-out has firm Welsh- based roots has spin-offs in other directions. In August, Mr Alan Cox, ASW's chief executive stepped in with a cash injection to resolve an acrimonious dispute which was threatening Welsh National Opera's world tour production of Falstaff. ASW has also become prominent in other areas of Welsh life through its generous sponsorship of local sport and the first meetings of the St David's Forum, a regular gathering of leaders of Welsh business, local government, academic, trade union, civil service, media and political life.

The Welsh Office is an enthusiastic backer of the buy-out trend. It sees them creating enterprises of greater permanence and growth potential in the Welsh economy.

Earlier this year Mr Peter Walker opened a new office block for PD Engineering (UK) at Llantrisant. Formerly a member of the Powell Duffryn Group, the company was bought by its management team in 1986, assisted by a grant from the Welsh Office, Investors in Industry (3i) and Barclays Bank.

As Peter Walker put it: "Now we have here in this locality a company where the decisions are made locally, the power is local and the decisions for the future growth and expansion will be made for the benefit of the community as a whole."

The scope for management buy-outs in Wales was highlighted in a 1970s a Welsh Office-sponsored study which found that of Welsh firms employing between 500 and 1,000 people, 78 were controlled from outside and only 16 from inside Wales. Of those employing more than 1,000 people, 42 were controlled from outside and only seven from inside.

The position has changed little since, but now management buy-outs are being seen, especially by Peter Walker, as a means of adjusting the balance. Wales was slower to jump aboard the buy-out bandwagon in the 1980s than England, but is now more than catching up.

One reason is the very fact that Wales has a greater concentration of branch factories. These, by their very nature are more likely to be divested by a centralised operation elsewhere and become the target of a locally-based management intent on self-preservation.

A case in point is Plastic Engineers, situated in the Taff Valley in Mid Glamorgan some ten miles north of Cardiff. This was a buy-out from Birmid Qualcast in the summer of last year, involving initial funding of £1.7m – £100,000 coming from the management, £800,000 invested by 3i's Cardiff office, £600,000 overdraft facility from Barclays and some support from the Welsh Office.

Since then, 3i has invested a further £1.5m mainly to allow a subsidiary company to be set up in Beith, Ayrshire, employing 50 people to service the Scottish electronics industry. Plastic Engineers staff have increased overall from 120 at the time of the buy-out to 250, a figure that will shortly increase to 300. Its turn-over has risen from £4m to £10.5m in the same period.

"Our motivation in the buy-out was one of pure survival," recalls Mr Ted Clifforth, chairman of the company. "I think the key to our success since has been shortened, autonomous decision lines and being able to give a personal commitment to our customers."

Plastic Engineers are typical of the kind of buy-outs currently happening in Wales, both in its scale and financial investment involved. Three years ago buy-outs of this character were unknown. Since then leaving aside the special case of ASW Holdings, there have been an estimated 40 buy-outs in Wales involving a total investment of around £40m. Currently some half-a-dozen buy-outs are being processed.

It seems likely that this level of activity will be continued into the 1990s. For instance, the Welsh Venture Capital Fund, a branch of the Welsh Development Agency, was founded in 1985 with £5.5m capital raised from pension funds, Lazards, the Church in Wales, the Welsh Counties and the WDA itself. So far, the Fund has invested £4m, with £1.3m going into management buy-out ventures. The Fund is currently raising a second fund, targeted at £10m.

John Osmond

Deal Leaders of larger MBOs

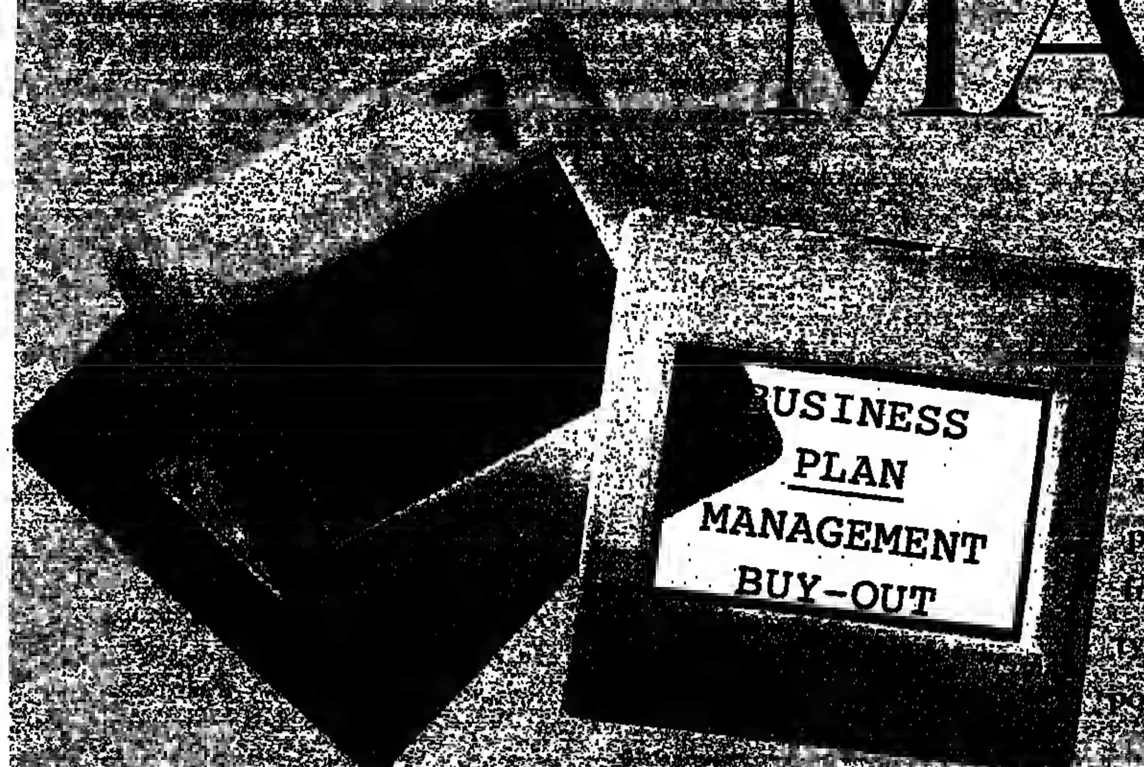
	Number of deals Sole	Joint	Total	Total value £m	Average value £m	Address	Telephone number
Bankers Trust Company	8	–	8	636	80	Dashwood House, 69 Old Broad Street, London, EC2P 2EE	01-726 4141
Barclays Development Capital	5	–	5	104	21	Pickfords Wharf, Clink Street, London, SE1 9DG	01-407 2389
Baring Capital Investors	1	–	1	405	405	140 Park Lane, London, W1Y 3AA	01-408 1282
Bank of Boston	2	–	2	54	27	39, Victoria Street, Westminster, London, SW1H 0ED	01-799 3333
British Linen Bank	1	–	1	13	13	55 Bishopsgate, London, EC2N 3NN	01-588 7911
Candover Investments	9	6	15	835	56	Cedric House, 8-9 East Harding Street, London, EC4A 3AS	01-583 5090
Charterhouse	7	3	10	1,331	133	7 Ludgate Broadway, London, EC4V 6DX	01-248 4000
Chase	1	1	2	105	53	Woolgate House, Coleman Street, London, EC2P 2HD	01-726 5559
CIN Venture Managers	2	2	4	679	170	PO Box 10, Hobart House, Grosvenor Place, London, SW1X 7AD	01-245 6911
Citicorp Venture Capital	5	5	10	212	21	PO Box 199, Cotton Centre, Hays Lane, London, SE1 2QT	01-234 5678
County Natwest Ventures	8	–	8	144	18	Drapers Gardens, 12 Throgmorton Avenue, London, EC2P 2ES	01-382 1000
Electra	1	6	7	691	99	65 Kingsway, London, WC2B 6QT	01-831 6464
Foreign & Colonial Ventures	1	–	1	11	11	1 Laurence Pountney Hill, London, EC4R 0BA	01-623 4680
Granville	6	–	6	70	12	8 Lovat Lane, London, EC3R 8BP	01-621 1212
Guidehouse	1	1	2	19	10	Vestry House, Greyfriars Passage, Newgate Street, London, EC1A 7BA	01-606 6321
Hambros	1	–	1	26	26	41 Tower Hill, London, EC3N 4HA	01-480 5000
Hill Samuel	1	–	1	28	28	100 Wood Street, London, EC2P 2AJ	01-628 8011
3i	10	6	16	806	50	91 Waterloo Road, London, SE1 8XP	01-928 7822
Kleinwort Benson	2	1	3	93	31	PO Box 560, 20 Fenchurch Street, London, EC3P 3DB	01-623 8000
Lloyds Development Capital/Merchant Bank	4	–	4	184	46	40-66 Queen Victoria Street, London, EC4P 4EL	01-248 4275
Manchester Exchange Trust	–	1	1	62	62	Pembroke House, 40 City Road London, EC1Y 2AX	01-251 9281
Merrill Lynch	1	–	1	280	280	25 Ropemaker Street, London, EC2Y 9LY	01-867 4865
Midland Montagu Ventures	5	1	6	274	46	10 Lower Thames Street, London, EC3R 6AE	01-260 9911
Morgan Grenfell	1	–	1	50	50	23 Great Winchester Street, London, EC2P 2AX	01-588 4545
Murray Johnstone	1	–	1	14	14	7 West Nile Street, Glasgow, G1 2PX	041-226 3131
Norwich Union Venture Capital	1	–	1	13	13	PO Box 53, Surrey Street, Norwich, NR1 3TE	0603-622200
Prudential Venture Managers	–	3	3	82	27	Audrey House, Ely Place, London, EC1N 6SN	01-831 7747
Scandinavian Bank	1	1	2	53	27	Scandinavian House, 2/6 Cannon Street, London, EC4M 6XX	01-236 6090
Schroder Ventures	7	–	7	285	41	20 Southampton Street, London WC2E 7QG	01-379 5010
SPHG Equity Ventures	2	–	2	68	34	Security Pacific House, 4 Broadgate, London, EC2M 7LE	01-374 1798
SUMIT	–	1	1	13	13	Edmund House, 12 Newhall Street, Birmingham, B3 3ER	021-200 2244
Warburg/Mercury	2	2	4	384	96	33 King William Street, London, EC4R 9AS	01-280 2222
None	7	–	7	82	12		
Eliminate joint deals		(19)	(19)	(1,417)			
	104	19	123	6,701	54		

NOTE: This and other tables report the results of a survey as at 15th September 1988 undertaken by Peat Marwick McLintock for the Financial Times of the deal leaders of management buy outs since 1981 with total funding of over £10m in 1988 values.

Source: Peat Marwick McLintock

THIS COULD BE THE MOST CRITICAL DECISION OF YOUR LIFE.

ARE YOU THE RIGHT PERSON TO MAKE IT?



Management buy-outs, like greatness, can often be thrust upon you.

Your company or division suddenly finds itself out of favour. Sometimes the parent wants to withdraw from a whole area of business. Or the shareholders may simply want to raise cash. At which point something remarkable happens.

The pulse races. The adrenalin flows. And the thought arises. 'Why not?'

Quickly followed by the more daunting question. 'But how?'

It is at this point that many successful buy-out teams have contacted us, Midland Montagu Ventures.

Which is hardly surprising.

Since our inception, we've supported more than 100 buy-outs.

Many of these have been mega-deals, others somewhat smaller but no less important. Indeed, over the past few years we have provided funds for buy-outs for many different types of business, from retail to transport, low technology to high technology.

And having 'been there before' so to speak, we know the kind of problems that are likely to crop up and how to deal with them.

Our greatest strength lies in the experience of our people. People who, in many cases, have run companies themselves.

Having held such positions, it enables them to distinguish between your enthusiasm for a buy-out and your actual ability to make it work. (After all, we're only as successful as the people we back.)

Obviously you'll want to know more about some of the other things we can do, apart from arranging the money (something we know a little about).

Things which could make a significant contribution to a successful buy-out. We will be able to assist you on a variety of other matters such as the negotiations and city connections.

After the deal is done you may well like us to give you an independent view of your business, or contribute to its' strategic development.

By working closely together right from the start we're confident that teamwork, (one of our more old-fashioned principles), will ensure the results we're both looking for.

We've tagged ourselves 'The Venture Catalysts,' which is an appropriate term considering the unique combination of our experience and input.

It's also our way of saying that our role can be crucial to bringing your deal together and to supporting you as the business develops.

If you'd like to talk to us about the most critical decision of your life, call one of the people listed below.

Oh, and one more thing.

Good luck.

Midland Montagu Ventures.

MIDLAND MONTAGU

[illegible] MIDLAND MONTAGU VENTURES, (A MEMBER OF [illegible]) [illegible] LOWER THAMES STREET, LONDON EC3R 6AE.
[illegible] 01-260 [illegible], JOHN BRANDON 01-260 99[illegible], [illegible] 01-260 9776, DENNIS FREEDMAN 01-260 9923.

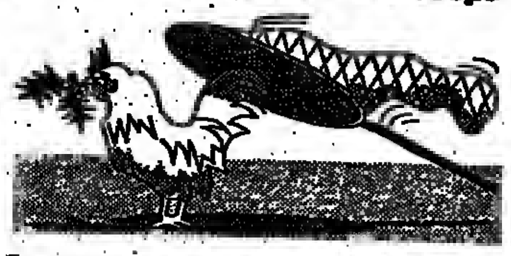
FINANCIAL TIMES
COMPANIES & MARKETS
Thursday October 13 1988

INSIDE

Klöckner's grief in the oil market

The heavy losses in oil trading declared yesterday by Klöckner of West Germany came as little surprise to the oil market. Traders said the company had maintained a big long position, buying oil in the forward Brent market over the past year. Prices were sliding for most of that time, but Klöckner evidently hoped the market could recover. Page 38

A flutter in American hen coops



Tyson Foods, the leading US manufacturer of poultry products, has launched an unsolicited bid for Holly Farms, the nation's third biggest chicken group. If the deal goes through it will lead to a substantial consolidation of the industry, with the combined group holding about one third of the market. Holly Farms' profits were hit last year by depressed poultry prices, due to overproduction. Page 18

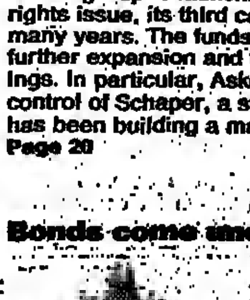
UEI revs up to higher profits

UEI, the UK high technology electronics and engineering group, has announced a 26 per cent rise in interim pre-tax profits to £14m ($24m). The increase was spread across its four diverse divisions, which include the manufacture of sophisticated equipment for the television and printing industries and Cosworth, which makes racing and high-performance car engines. Page 26

Asko rings the cash tills

Asko, the fast-growing West German discount stores group is launching a DM870m ($470m) rights issue, its third call on shareholders in as many years. The funds will be used to finance further expansion and to replace bank borrowings. In particular, Asko has now bought full control of Schaper, a stores group in which it has been building a majority stake since 1986. Page 20

Bonds come under the hammer



One question more than any other has exercised the minds of those responsible for Canada's bond distribution system over the last five years: To auction or not to auction? The proportion of government debt distributed in this manner has risen to 50 per cent since the first two-year bond was auctioned in September 1983. Before then virtually all Canadian government bonds were allotted to primary distributors, which then charged commission. Ted Jackson examines arguments for both systems. Page 23

Market Statistics

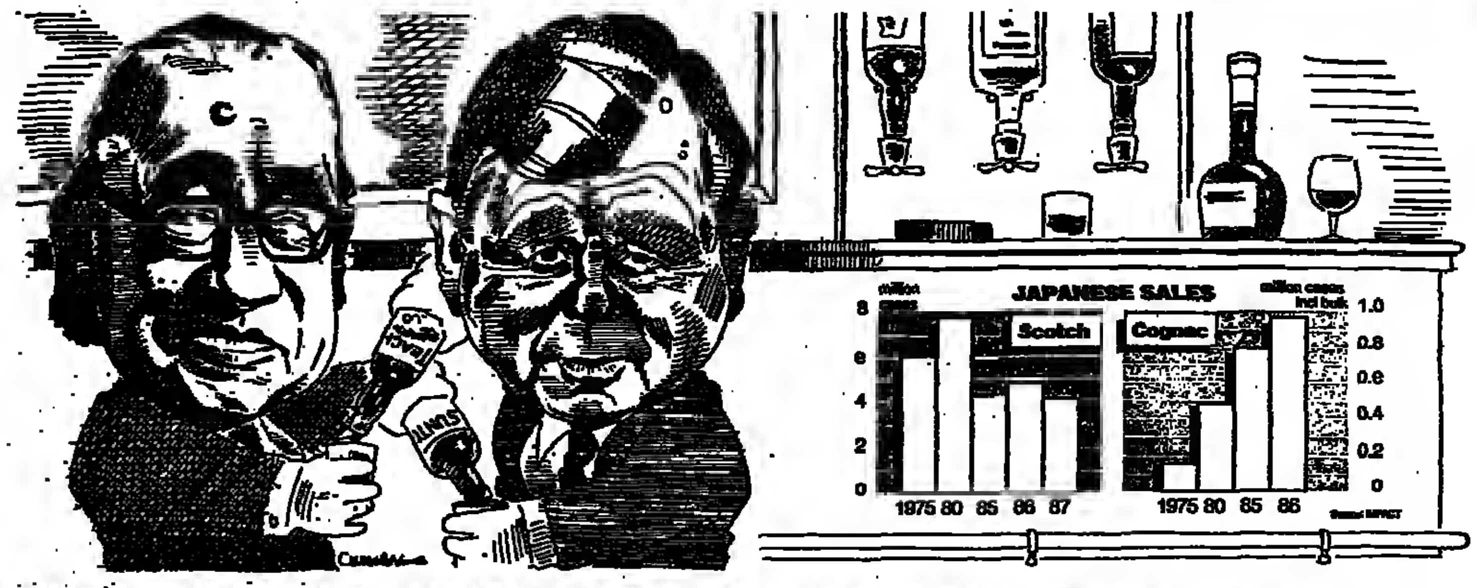
Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				Lucheire	361	+	14.2
Falls				Valourec	180	+	7
Bayer Vereins	370	−	11	**Falls**			
Deutsche Bk.	527.3	−	10.7	Maisons Phenix	55.6	−	4.4
Bayer Hypo.	374	−	7	Ingenico	357	−	27.5
Kaufhof	402	−	8.5	Canal Plus	585	−	27
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Chicago Pacific	42⅝	+	3⅝	Press Kogyo	680	+	90
Holly Farms	50⅝	+	7⅝	Nobi-Fujikoshi	899	+	120
Kroger	55¾	+	⅞	Nippon Kokuka	780	+	100
Falls				**Falls**			
Motorola	39½	−	3⅛	Sanyo Elec	1050	−	100
Texas Air	15⅜	−	⅞	Yaohan Dept	1410	−	110
Whirlpool	25¾	−	⅝	Dec Sekki	1180	−	90
PARIS (FFr)							
Rises							
Aussedat-Rey	583	+	39				
LONDON (Pence)				Enterprise Oil	601	−	12
Rises				Glaxo	£10⅝	−	¼
AlexWorkwear	173	+	13	Jaguar	256	−	8
Capital Radio	398	+	8	Johnston Grp.	390	−	15
Hall (Matthew)	175	+	35	Lon&Manchester	266	−	10
Hawtal Whiting	128	+	12	LASMO	511	−	14
Joseph (Leo.)	470	+	17	Pearson	736	−	16
McAlpine (A.)	319	+	15	Prudential	152	−	5
Regentcrest	118	+	5	Reckitt&Colman	906	−	15
Rush&Tompkins	327	+	24	Saatchi & S.	349	−	11
Falls				Travis&Arnold	495	−	65
AMEC	365	−	13	Wellcome	503	−	10
BPB Inds.	252	−	13½				
Cons Gold Flds	£12½	−	⅜				
Dawphin	128	−	7				

A drop of Teacher's at the Rising Sun

Tony Jackson and Christopher Parkes look at yesterday's alliance between Allied-Lyons and Suntory



East-West marketing drive: Suntory's Keizo Saji (left) with Sir Derick Holden-Brown, chairman of Allied-Lyons

MR KEIZO SAJI, chairman of Suntory, may have overstated it yesterday, when he coyly claimed that his surrender of a 1 per cent stake in Japan's largest drinks company to Britain's Allied-Lyons felt "a little like losing my virginity."

He may be forgiven. It was, after all, the first encroachment by an outsider, Japanese or foreign, into the private family firm's equity. The event may not have lived up to the expectations of drinks industry watchers, nurtured on a strong diet of global-scale takeovers in recent years, but, in terms of the xenophobic Japanese market, it is momentous and promises to be rewarding for both partners.

First fruits of the union are already apparent. For Allied, the deal provides the strongest ally possible in one of the world's largest and most promising drinks markets. It may also serve further to signal to shareholders its determination and ability to develop its global influence at a time when Bond Corporation of Australia has built an 11 per cent stake and bid rumours are rife. By tying in Allied's full brand portfolio with its own powerful domestic range and existing brewing deals with Budweiser and Carlsberg, Suntory can only strengthen its grip on the hard-pressed Japanese drinks market.

Despite its domination in Japan, where it claims a 60 per cent share, it has next to no sales outside its home base. The link with Allied could open doors abroad through the British group's international network as well as improve Suntory's standing at home.

In the late 1970s, Suntory Old was the biggest selling whisky in the world. But volume sales have halved from their peak in 1981 and fell by 10 per cent last year alone, largely as a result of changing drinking habits in Japan. Japanese whiskies have been hard hit by the rising popularity of cheaper grain and potato based schochu tipples. The company has already warned that operating profits will fall by 26 per cent to Y19bn ($146m) this year.

Despite diversification into soft-drinks, food and an international chain of vastly expensive restaurants, more than 90 per cent of the company's sales still come from alcoholic drinks.

Suntory executives said yesterday that group sales of imported products run at Y30bn a year and the aim was to multiply that by five within five years.

Hence the importance of premium foreign brands from the Allied fold. These could help it at least to maintain its market share, especially since imports stand to benefit greatly from excise duty adjustments promised for next April.

Then, according to Mr Jim Ferguson, corporate development director of Hiram Walker-Allied Vintners, the tax on imported scotch is due to fall from about Y2,000 a litre to Y1,100, almost matching the rate for quality Japanese whisky. At the same time duty on cheaper Japanese products will rise from Y300 to about Y900.

According to Ms Michelle Proud, analyst at County NatWest Wood Mackenzie, this raises every possibility of a full-scale revival of the market for scotch in Japan, with Allied's Ballantine's and Teacher's brands riding the tide with Suntory's domestic leaders.

Of course, Allied-Lyons is already active in Japan. Ballantine's Finest, for example, held fifth place in scotch sales last year, but the group's representation was scattered and marketing effort diffused among 20 different distributors. Now its spirits and fortified wines will be handled by just one. Before yesterday's announcement Suntory dealt only in Allied's Canadian Club whisky and Kahlua liqueur.

There are awkward patches to be smoothed out. Suntory is the Japanese distributor for Martell cognac, taken over by Seagram in a hotly contested fight with Grand Metropolitan recently, and it is not yet clear what the Canadian company will make of its premier name effectively being sold through the same hands as Allied's Courvoisier.

As well as giving Allied an escape from the tortuous distribution maze accepted by many interlopers as part of the price of doing business in Japan, the deal illustrates yet again the international drinks industry's determination to control the destiny of its brands all the way through the distribution chain.

IDV, the Grand Metropolitan spirits division, set up a wholly-owned marketing company in Japan last April to control distribution of its brands. In a similar move in July Guinness took an 80 per cent stake in its Italian distributor.

Common interests in growth suggest that the Suntory-Allied joint venture will result in the British company's brands being marked for priority treatment. At present Allied ships only about 300m cases of drink a year to Japan with a retail value of £100m ($170m).

And although it is understood that table wines are not included in yesterday's deal, Allied's joint venture with Whitbread in European Cellars could also benefit. European Cellars' Calvé wine brand is market leader in Japan. "Allied-Lyons believes its strength in wine products is likely to be most effectively realised in Japan through Suntory's large and powerful salesforce," the British group hinted yesterday. And it also expected to be able to develop food products for the Japanese market as well as co-operating in the drinks industry elsewhere, in Asia and North America in particular.

Suntory already sells some liquor in the US, and is having some success with a speciality melon-based liqueur, Midori, for which Allied yesterday promised high-priority treatment.

As Mr Michael Jackaman, vice-chairman of Allied, pointed out in Tokyo yesterday, there is much common ground between the two companies. Provided there are no further incursions by unwelcome Australians, it could prove profitably fertile. "Both companies are distillers, brewers and makers and marketers of wine. Both have high class restaurants and fast-food outlets. Both sell coffee, tea and even ice cream.

Al Saudi rescue plan is revised

By George Graham in Paris

FRANCE'S banking authorities have had to revise their controversial rescue plan for the troubled Al Saudi Banque in the face of concerted opposition from leading French banks.

Senior officials were yesterday negotiating a large increase in the contribution of Al Saudi's major creditors, and cutting by about two-thirds the sum demanded from the rest of the French banking sector.

Many bankers had criticised the Bank of France for demanding a contribution from all French banks, whether or not they had lent money to Al Saudi, while reimbursing in full foreign depositors in the bank.

The central bank had argued that the contribution was justified in order to preserve the good name of Paris as a financial centre.

The initial rescue plan aimed to cover Al Saudi's FFr2.1bn ($331m) deficit with an interest-free deposit of FFr2.7bn from its major creditors – principally Thomson, the state-controlled electronics and defence group, and the three banking groups Credit Agricole, Credit Foncier and Credit National – and a similar FFr1.6bn interest-free deposit from the entire French banking industry.

Non-creditor banks yesterday won a large reduction in the size of their contribution, although talks were still due to take place last night at the Bank of France which could alter the final proportions.

Several French banks, however, were jubilant over what they saw as a victory, establishing the important point of principal that creditors of a collapsing bank should bear the brunt of the payments.

France does not have an institution comparable to the US's Federal Deposit Insurance Corporation to manage bank collapses, and central bank officials stick to the line that banks simply do not go bankrupt in France. Many bankers, however, have called for a more formalised procedure to be set up.

Al Saudi Banque's activities are to be taken over by a new bank managed by Banque Indosuez, the leading Paris investment bank, which has large interests in the Middle East.

Indosuez, which was not a creditor of Al Saudi, said yesterday that it would take 35 per cent, with 30 per cent held by its associate Saudi French Bank, 30 per cent by the Saudi Arabian businessman Mr Rafik Hariri, and 5 per cent by Thomson.

Racal Telecom fixes share price at 170p

By Philip Coggan and Hugo Dixon in London

RACAL TELECOM, the mobile telecommunications subsidiary of Racal Electronics, has been valued at £1.7bn ($2.9bn) for its flotation on the UK, US and European stock markets.

The prospectus, launched yesterday, prices each Racal Telecom share at 170p. Although this is slightly below recent market expectations, it still represents a prospective price/earnings ratio of 30.5, one of the highest ratings ever commanded by a new issue.

Racal Telecom is forecasting pre-tax profits of £71.7m for the year to March 31 1989, up from £37.1m in the previous 12 months.

Reaction in the market to the pricing was mixed, with analysts generally enthusiastic. However, some fund managers felt the rating was aggressive by UK standards. Racal says the price is justified by the exceptional growth of Vodafone.

Since it began operations in early 1985, forecasts of subscriber growth have been continually revised upwards. Goldman Sachs, the joint financial advisers to the issue, said the pricing of Racal Telecom compared favourably with similar cellular communications businesses in the US.

The company's main business is Vodafone, the highly successful cellular telephone network. In addition to this, Racal Telecom has businesses in paging, private mobile radio and mobile phone manufacturing. It also has ambitions to become a key player in cellular phones on the Continent following the establishment of a pan-European carphone network in 1991.

Mr Gerry Whent, Racal Telecom's chief executive, dismissed suggestions that the company's profitability would be harmed by new companies entering the cellular market.

In all, 200m shares in Racal Telecom, about 20 per cent of its equity, are being sold, with Racal Electronics retaining 80 per cent. The vast bulk – 150m shares – are being offered to existing shareholders on the basis of one Racal Telecom share for every 4.425 in Racal Electronics.

There are offerings to institutions of a further 35m shares in the US and 15m in Europe. A general UK public offering of 14m shares is being made, which will be satisfied with shares not taken up by qualifying Racal holders.

N.M. Rothschild and Goldman Sachs are underwriting the UK issue, for a fee of 2 per cent, which includes sub-underwriting fees of 1.25 per cent. The US and European offers are being underwritten for fees of 5.25 per cent and 4 per cent respectively.

The deadline for applications is Friday, October 21 and dealings will start on Wednesday, October 26.

Lex, Page 16

Eastern Air sells shuttle service to Trump for $365m

By Anatole Kaletsky in New York

EASTERN AIRLINES, the strife-ridden unionised subsidiary of Mr Frank Lorenzo's Texas Air, yesterday agreed to sell its highly prized US East Coast shuttle operation to Mr Donald Trump, the New York property tycoon, for $365m.

The operation will be renamed the Trump Shuttle, its aircraft will be refurbished and passenger facilities upgraded. But in other respects there will be no changes to the hourly, no-reservations air service linking New York, Washington and Boston, which in 27 years has become an institution for businessmen and politicians.

At a news conference at Mr Trump's recently acquired Plaza Hotel in Manhattan, Mr Lorenzo also confirmed that he had been approached by Mr Carl Icahn, the takeover specialist and corporate raider who controls Trans World Airlines, about buying the remainder of Eastern Airlines. Mr Lorenzo said it was not his "preferred course" to sell Eastern and that a deal with Mr Icahn was "very unlikely" to be struck.

Mr Lorenzo, who had considered selling the shuttle for almost a year to strengthen his negotiating position in a protracted struggle over labour concessions with Eastern's unions, expressed some regret over the disposal.

The shuttle service had long been the most profitable part of the airline's operations, although it accounted for only 4 per cent of its total passenger miles. Because of its profitability, however, the shuttle gave unions an important bargaining chip.

The shuttle deal, described by analysts as a very full price, greatly strengthens Eastern's ability to withstand a strike. The airline has about $300m of cash in a carefully husbanded war chest. After completion of the shuttle sale, which has been set for December 15, cash reserves will more than double.

Mr Lorenzo's previous attempt to sell the shuttle, to a subsidiary of Texas Air which would have been insulated from Eastern's labour difficulties, was blocked by a court injunction. However, this was overturned on appeal, leaving the unions with virtually no hope of stopping a sale.

Mr Trump said he would observe all present labour contracts, noting that the shuttle unlike the rest of Eastern's operations was highly profitable with its present cost structure. His emphasis would be on adding quality and luxury.

Mr Trump, who loves to promote himself as a garish symbol of the joy and power of money in the 1980s, said he had bought the shuttle "because it was unique; it was a diamond."

BGas and Shell in Tenneco deals

By Steven Butler in London

BRITISH GAS and Royal Dutch/Shell emerged yesterday as purchasers of some $700m of the oil and gas assets which have been sold off by Tenneco, the US group.

British Gas took another step in its programme of international diversification, with the purchase of a wide spread of oil and gas properties for $194.5m in cash.

British Gas came out as the highest bidder for the assets, which comprise Tenneco's operations outside North America, excluding those in Norway and Colombia.

Shell Petroleum, part of the Royal Dutch/Shell group, bought for $500m Tenneco's interests in Colombia, where it is already active in oil and gas exploration and production. Norway's Conoco has bought the interests there.

Although the British Gas acquisition is small compared with the company's ability to make a large purchase, it will for the first time give the giant gas utility, which was privatised at the end of 1987, a truly international spread of interests. Before privatisation, British Gas was barred from international operations.

The acquisition includes assets in Ecuador, Egypt, Gabon, Malaysia, Nigeria, The Bahamas, Trinidad, Tunisia, and the UK. The largest element in the package is in Gabon, where British Gas will become operator of four small producing offshore oilfields, in which it will have a 50 per cent interest, and five other exploration licence areas covering 14,000 sq km.

The package includes a large proportion of exploration acreage in which British Gas would be operator. These factors were seen as a key attraction of the deal.

British Gas said it would use the acquisition as a base on which to expand further in the countries concerned.

Most of British Gas's exploration and production assets were stripped out of the company prior to privatisation, although the company retained an exploration staff.

In June, British Gas paid £370m for Acre Oil, whose assets were concentrated in the North Sea. Its other big expansion since privatisation was the purchase of a 51 per cent interest in Bow Valley Industries, the Canadian energy group, for £350m.

Last month British Gas made an abortive raid on the shares of London & Scottish Marine Oil, coming away with just 1.1 per cent of the company instead of its target of 14.9 per cent.

Lex, Page 16; Conoco lifts stake in Heidrun, Page 35

Good prices boost US pulp and paper companies

By Our New York Staff

MEAD and Georgia-Pacific, two large US pulp and paper companies, yesterday reported improvements in profits from their main businesses in the September quarter thanks to full capacity use and good prices.

Mead, which is the leading US maker of school and office stationery, reported earnings in the third quarter of $170.5m or $2.56 a share against $97.4m or $1.55 in the 1987 third quarter. Revenues rose to $3.42bn from $3.14bn.

The results were made topsy-turvy by special gains in both quarters.

In the latest quarter, Mead enjoyed a capital gain of $100.9m or $1.50 a share from the sale of its share in Brunswick Pulp & Paper to Georgia-Pacific.

In the 1987 third quarter, Mead took a gain of $42.8m or 68 cents a share from the sale of a group of mills.

Once adjusted, earnings per share grew at an annual rate of 22 per cent in the third quarter.

Georgia-Pacific also reported a complex set of figures, with its net income actually declining because of higher interest payments and a sluggish performance by its lumber and building products business.

But pulp and paper operating profits surged 63 per cent to $150m in the September quarter.

Georgia-Pacific reported net income of $114m in the September quarter, down from $118m, on sales at $2.41bn.

Part of the decline in net income was caused by higher interest costs to finance a buyback of shares, so that actual per share earnings rose from $1.10 to $1.19.

Operating profits for the building products business fell from $156m to $120m because of weak pricing for plywood and lumber.

At the nine-month stage, Mead was ahead at $309.3bn or $4.69 a share, including the special gains, with sales advancing slightly from $3.15bn to $3.42bn.

Georgia-Pacific reported net income of $338m or $3.41 a share, down from $346m or $3.16 a share. Sales increased from $6.37bn to $6.94bn.

Higher costs hit Whirlpool

By Our New York Staff

WHIRLPOOL, the US domestic appliance manufacture which has become a world leader in its industry, yesterday reported a decline in profits for the third quarter.

The company, which this year concluded an important joint venture deal with Philips, the Dutch multinational, saw net earnings fall by almost 30 per cent to $31.5m compared with the year-ago period on a 5 per cent rise in sales to $1.17bn.

The group also recorded a 25 per cent profit decline to $166.1m in the first nine months against the same period in 1987.

Whirlpool blamed the downturn on higher material costs, which could not be recovered by increased prices, and said it had been hit by weaker results from the company's kitchen cabinet business.

It added that action was being taken to improve performance. All the company's businesses were under review in an attempt to increase efficiency, and Whirlpool Kitchens had taken steps to consolidate its manufacturing facilities and restructure.

Earnings per share in the third quarter fell to 45 cents, against 63 cents last time, and for the nine months, earnings dropped to $1.53 from $1.94. The company pointed out that it had changed its accounting procedures for 1987, which lifted the nine-month earnings for that year by $10.8m to $151.5m.

The $470m joint venture deal under which Philips agreed to sell Whirlpool a 53 per cent stake in its main domestic appliances business will create the world's largest manufacturer of cookers and other home appliances.

Whirlpool is to consolidate the results of the joint venture created by the agreement.

Fiat in talks with Japanese car maker

By Kevin Done, Motor Industry Correspondent

FIAT, the Italian automotive concern, is negotiating the purchase of automatic transmissions for compact cars from Fuji Heavy Industries of Japan, the maker of Subaru cars.

Fuji said it expected to supply several thousand ECVT (electro-continuously variable transmissions) units a year starting early in 1989.

Fiat has been testing samples of the ECVT transmissions since late 1986.

The company said yesterday that negotiations had not yet been completed, but it confirmed that it was planning to increase the range of automatic transmissions offered in its small and medium cars, although it refused to specify which model would use the Fuji ECVT.

Fiat currently offers a hydraulic continuously variable transmission on its Uno small car, which was developed jointly with Ford and Van Doorne of Holland.

Ford introduced this transmission on its Fiesta small car in May 1987. The system was supplied initially in low volumes by Van Doorne to both Ford and Fiat, but Ford has invested £80m in its own transmission plant in Bordeaux, France, to produce the transmission in sufficient volumes to supply its own assembly plants in Europe as well as Fiat and other vehicle makers.

Earnings stagnant at First Boston

By James Buchan in New York

FIRST BOSTON, the Wall Street securities firm which is going private in a merger with its European affiliate, Credit Suisse First Boston, reported stagnant earnings in the September quarter because of a decline in revenues from its investment banking business.

First Boston, which last week announced a $1.1bn deal to buy out its public shareholders by the end of the year, said earnings in the third quarter were $41.7m or $1.12 a share fully diluted against $40.8m or $1.15 in the 1987 third quarter. Revenues were also little changed at $374.9m as against $369.6m.

Revenues from investment banking tumbled from $240.9m to $175.1m. The mergers department was plunged into turmoil in February when its two star bankers, Mr Bruce Wasserstein and Mr Joseph Perella, quit with several other specialists.

Although the department has since been successful in pulling in new business, the comparisons with the best days of the Wasserstein-Perella era are unflattering.

First Boston's valedictory results as a public company were rescued by a recovery in trading profits. Last year, big losses on trading securities for the firm's own account forced First Boston to reorganise its trading deparment. In the quarter just ended, revenues from "principal transactions" recovered from $66.1m in the 1987 third quarter to $142.8m.

First Boston's share in earnings from Credit Suisse First Boston, which has faced sticky conditions in international securities markets this year, fell to $3.9m from $14.4m.

For the first nine months of the year, First Boston was ahead at $127.3m or $3.42 a share against $103.8m or $2.95.

Mr Peter Buchanan, chief executive, said: "Led by the government securities and high yield departments, our fixed income group performed well."

Separately, Standard & Poor's, the US rating agency, said it downgraded First Boston's subordinated debt rating to A-minus from A, because of the CFSB deal.

Tyson Foods launches bid for Holly Farms

By Robert Vincent in New York

TYSON FOODS, the leading US producer of poultry products, has launched an unsolicited bid for Holly Farms, the nation's third-largest poultry producer.

The bid values Holly Farms, which had sales of $1.5bn in 1987, at around $900m. Tyson, based in Springdale, Arizona, is offering $45 a share in cash and one-quarter of a Tyson Class A stock for each Holly Farms share. It said, however, that under certain conditions it might be prepared to increase the offer.

A deal would lead to a consolidation of the US chicken industry, with the combined companies holding around one-third of the market. An analyst said, however, that Tyson would have to improve its bid to succeed and would have to raise its offer to $55 a share, with a sweetener in the form of extra stock.

Holly Farms is reported to have adopted a "poison pill" defence, but the company issued a statement yesterday merely saying that the bid would be considered.

Holly Farms' profits were hit in the last fiscal year as overproduction depressed poultry prices. Analysts say the market has improved and Holly Farms, which also produces flour and bakery products, has started to rebound.

Tyson, with sales of $1.9bn in 1987, is weighted towards processed foods and sells its products to major grocery chains, local fast food franchises and schools.

France takes stake in pay TV

By George Graham in Paris

CAISSE DES Depots, the French Government financial institution, has taken a 5 per cent stake in Canal Plus, the French pay television channel, in the latest reshuffling in the country's broadcasting sector.

With a total of FFr1,200bn ($190.4bn) in funds under management, the Caisse des Depots is one of the most important financial forces in France and has developed its investments in the communications sector, including cable television networks.

Canal Plus, meanwhile, recently took the lead in a battle for control of Havas, the leading French advertising agency which was privatised by the last Government and was viewed by the new socialist administration as too firmly under the thumb of the right.

At the same time, TF1, the leading French television station, has been at the centre of uncertainty this week over the future leadership of the Bouygues construction group, its principal shareholder. Mr Francis Bouygues resigned as chairman of TF1 amid hectic stock market dealings in the shares of his own company.

The Caisse des Depots stake in Canal Plus was put through the stock market yesterday in a single FFr600m bloc at FFr635 a share. Canal Plus made net profits of FFr305m in the first half of the year at parent company level and group consolidated profits are expected to amount to FFr600m for the full year.

Demand helps SCA lift income by 45%

By Sara Webb in Stockholm

SCA, a leading Swedish forestry group, showed a 45 per cent increase in profits in the first eight months due to strong demand for forest and paper products and high pulp prices.

Profits after financial items jumped to SKr1.704bn ($265.6m) from SKr1.177bn in the comparable period last year. SCA said it expected full-year profits to be about SKr2.55bn.

The group was optimistic that the "good market situation" would continue, but said earnings in the last four months of the year would be held in check by significant cost increases in Sweden.

Group sales increased by 30 per cent to SKr13.1bn, boosted by recent acquisitions such as Peaudouce, the French hygiene products company. Taking comparable units into account, the group said sales had increased by at least 16 per cent.

Operating profit at SCA's forest and paper products division increased by 46 per cent to SKr1.122bn.

Macmillan reports fall in profits after shake-up

By Anatole Kaletsky in New York

MACMILLAN, the large US publishing house which the management is trying to acquire through a leveraged buy-out in competition with a takeover bid from Britain's Maxwell Communications, announced a fall in operating profits and a loss at the net level in the third quarter.

The net loss was due to special charges, partly connected with the heavy costs of the company's restructuring proposals and takeover defences.

Macmillan lost $1.1m or 3 cents a share after tax in the third quarter compared with a profit of $43.3m or $1.52 a year earlier. The loss came after special expenses of $39.7m connected with financial restructuring proposals and the tender offers to shareholders in the past few months.

The quarter's results also suffered from a $29.4m charge for the disposal of inventory resulting from Macmillan's decision to close Scribner Laidlaw, one of its elementary school textbook businesses.

Even disregarding the special items, operating results deteriorated. Operating profits fell to $71.2m compared with $78.6m in the third quarter last year, while sales advanced by only 5 per cent to $340.7m.

For the first nine months, operating profits of $96.5m were 7 per cent down from the year earlier level, while sales grew by 8 per cent to $764.2m.

Motorola shows strong growth in main activities

By Our New York Staff

MOTOROLA, the US electronics and communications group, lifted third quarter net earnings from $70m to $87m after a strong performance from its two largest businesses, communications and semiconductors.

It said that sales in these two sectors had risen by more than 20 per cent in the quarter, against the same period last year, while the group's total sales were ahead by 20 per cent to $2bn.

Earnings per share for the quarter rose from 54 cents in the 1987 period to 67 cents. At the nine-month stage, earnings jumped to $321m or $2.48 from $209m or 1.60.

Net margins on sales in the quarter improved slightly to 4.5 per cent compared with 4.2 per cent a year ago and 5.7 per cent in the second quarter. The nine-month figure was 5.5 per cent against 4.2 per cent.

Motorola said the new semiconductor orders had risen by 15 per cent and the backlog by 14 per cent. Orders had been strong in the Asia-Pacific region, and in Japan the acceptance of its Mosaic chip family, which continues to be dominant in the computer workstation market, had led to strong order growth.

In the communications sector, operating profits were sharply higher although order growth in the US was curbed by a decline in orders from public telephone networks.

INTERNATIONAL COMPANIES AND FINANCE

Wellington looks again at BA bid for Air NZ

By Michael Donne in London and Dai Hayward in Wellington

THE NEW Zealand Government is taking a fresh look at British Airways' bid for a 25 per cent stake in state-owned Air New Zealand, amid reports that plans for a deal with Qantas, the Australian airline, are running into problems.

At the same time, it was revealed yesterday that Scandinavian Airlines System, which recently arranged a 10 per cent stake in Texas Air of the US, was negotiating a partnership pact with Qantas to co-ordinate routes and timetables in the Far East.

Both moves are seen as reflecting a desire by Australasian airlines to strengthen their interests in other markets to meet increasing competition from the bigger US airlines through the 1990s.

A decision on Air NZ is expected to be made by the New Zealand cabinet next Monday.

Last month, after inviting tenders from interested airlines for a quarter share of Air New Zealand, the NZ Government said Qantas was the preferred bidder and that negotiations with the Australian state carrier were under way.

Although the Qantas officials negotiating on the bid say talks have been going smoothly, they admit they would like a bigger share of the New Zealand airline. Suggestions have ranged up to 60 per cent, part of which would be held by a group of New Zealand companies.

BA is also said locally to be talking to the Development Finance Corporation and other New Zealand financial institutions about mounting an improved bid through a consortium. In London BA declined to comment. It is understood that it has not made any improved offer, but neither has its original bid been rejected, and is still on the table for discussion at any time the Wellington Government likes.

Mr Bill Jefferies, associate Minister of State-Owned Enterprises who is leading the negotiations, denied yesterday the Government had requested a new bid from BA but added only that the negotiations must be "pure, commercial and proper."

Senior Air NZ executives prefer a link with BA, because it is not a direct competitor and could provide the New Zealand airline with strong links with destinations in the northern hemisphere.

An Air NZ deal with Qantas has also been vigorously attacked in the New Zealand media and by Opposition MPs. Mr Ian McLean, The Opposition MP concerned with state-owned enterprises, has linked government willingness to take another look at the BA offer with a proposed trade deal with the European Community under which the value of butter and lamb exports to Britain would be maintained, but with volumes cut, at the same time as New Zealand wanted to pull out of a joint Wellington-Canberra frigate-building deal.

"The New Zealand Government now has to choose between offending the British and risking the butter deal in Europe, or upsetting the Australians and damaging defence links," Mr McLean declared.

The SAS interest in the region stems from a desire to improve its position in the predicted "mega-carrier era" of the 1990s. SAS has a co-operation agreement with Thai International, which would also be involved in any discussions with Qantas.

Conoco lifts stake in Heidrun

By Karen Fossli in Oslo

THIS WEEK'S NKr770m ($115m) purchase by Conoco Norway of the Norwegian oil and gas interests of Tenneco Norway is intended primarily to strengthen Conoco's current position in the Heidrun oilfield which it operates, said Mr Don Johnson, managing director of Conoco Norway, yesterday.

The deal is subject to approval by Norwegian authorities, and it is hoped that this will be given by the turn of the year.

Conoco Norway is the Norwegian subsidiary of Houston-based Conoco, which is in turn a subsidiary of Du Pont, the largest US chemical company. Tenneco Norway is part of US-based Tenneco, which has this week been announcing the piecemeal sale of its oil and gas interests.

The purchase by Conoco increases its stake in the Heidrun field to 24.9 per cent, an increase of 6.6 per cent. With the deal also comes a new 9.8 per cent stake in the Smoerbukk oil-gas-condensate field, operated by Statoil, Norway's state oil company.

Development of the Heidrun field is underway and Conoco last week said that it intends to deploy an early production system in the field until it can be fully developed for production by 1993.

The prospects for the Smoerbukk field, however, are less bright because it is mainly a gas/gas-condensate field which will require a gas sales contract before development can be approved by Norwegian authorities.

The purchase brings to Conoco a total of 125m barrels of oil equivalents or additional stakes in 10 licences on the Norwegian continental shelf.

Conoco has offered the Norwegian employees of Tenneco employment but a decision has not yet been reached about employing the expatriate staff of the company. In Norway Tenneco employs some 20 people.

The only other identified bidder for Tenneco's Norwegian interests was Elf Aquitaine Norway, the Norwegian subsidiary of Paris-based Elf Aquitaine.

Last month, Conoco agreed to pay Statoil NKr300m for a 1 per cent stake in Statpipe, the 800km gas pipeline which connects into the Norpipe. This, in turn, supplies Norway's continental customers.

Conoco said that both deals were part of its strategy to strengthen its commitment and foothold in Norway.

Henderson Land profit passes HK$1bn

By Michael Marray in Hong Kong

HENDERSON Land Development, the Hong Kong property group controlled by entrepreneur Mr Lee Shau Kee, yesterday reported net profits of just over HK$1bn (US$128.2m) for the year to June, an increase of 66 per cent.

Turnover rose to HK$2.28bn from HK$1.7bn. The results were in line with market expectations, with Henderson's profits from the sale of development properties benefiting from the buoyant state of the territory's property market.

A final dividend of 15 cents per share has been declared, bringing the total for the year to 24 cents against a previous 19 cents on an adjusted basis.

The Henderson group was recently restructured, by means of a series of substantial asset swaps between Henderson and its Wing Tai Development subsidiary.

The restructuring leaves Henderson focused on property development activities while Wing Tai, which has been renamed Henderson Investment, will invest in property and listed companies.

Henderson Investment yesterday itself reported net profits of HK$203m for the year to June, up from HK$201.9m. Turnover fell to HK$417.3m from HK$509.1m, reflecting reduced activity in the wake of last October's market crash.

Union Carbide to sell plant

By R.C. Murthy in Bombay

UNION CARBIDE India (UCI) is to sell its chemicals and plastics processing plant in Bombay to Oswal Agro Mills, an offshoot of the country's rapidly growing Oswal group, for some Rs650m ($45.2m).

This is double what UCI had agreed four years ago to sell the plant to the local Reliance Industries. That deal fell through after the disaster at Union Carbide's Bhopal plant in which more than 2,000 people died.

Earnings surge at state companies

By Chris Sherwell in Sydney

COMMONWEALTH BANK and Telecom Australia, two of the country's biggest state entities, yesterday reported sharply improved profits for the year to June.

The bank announced an after-tax profit of A$273.4m (US$219.4m), up 38.6 per cent, and attributed the improvement to better margins. Extraordinary items added another A$91.5m, making a total of A$359.1m.

Telecom, which operates Australia's domestic telecommunications, reported a profit of A$777m, but said the figure was inflated by A$300m because of changed procedures for sales tax and customs duty accounting.

The results are of added interest this year because the Labor Government, after winning the mid-1987 election, suggested that these and other state sector groups such as Qantas and Australian Airlines might be privatised.

Subsequently Mr Bob Hawke, the Prime Minister, ruled out the privatisation of Telecom. But the future of Commonwealth Bank remains unsettled, and the possibility of a merger with one of the country's three big private banks has been openly canvassed.

Mr Don Sanders, Commonwealth Bank managing director, said it had been a year of "outstanding achievement" in which profit per employee had increased 43 per cent. The increased profits were made despite a A$182m increase in charges for bad and doubtful debts, up 38 per cent.

In the case of Telecom Mr Robert Brack, chairman, attributed the performance to increased traffic and improved efficiency and productivity. The outcome will not prevent telephone charges rising later this year, but Telecom reaffirmed its commitment to keep the increase below that of the consumer price index.

Gold Fields Namibia lifts output in third quarter

By Jim Jones in Johannesburg

GOLD FIELDS Namibia (GFN), the Namibian mining and exploration company due to be listed next week on the Johannesburg SE, has reported pre-tax profits of R48.3m ($19.5m) for the nine months to September, on turnover of R239m.

Last week's pre-listing statement estimated a full-year pre-tax profit of R89m on turnover of R344m. Yesterday the company said it believed these forecasts would be achieved.

For the third quarter, GFN – which is 79.7 per cent owned by Gold Fields of South Africa, itself an affiliate of the UK's Consolidated Gold Fields – showed increased metal production. The company milled 540,000 tonnes of ore and produced 11,571 tonnes of copper in concentrates, 4,768 tonnes of lead and 20 tonnes of silver, both in concentrates.

Powertech leaps to R27m

By Jim Jones in Johannesburg

POWER TECHNOLOGIES (Powertech), the South African electrical manufacturer, lifted sales and profits by well over a third in the six months to August and says its order book is the highest ever.

Turnover increased to R424m ($171m) from R302m and pre-tax profit was R26.9m against R19.1m. Earlier this year Powertech merged its Asea division with Brown Boveri's light electrical division.

The move, initiated separately from the merger of the Swiss and Swedish parents, was prompted by the belief that corporate size will be important in winning contracts for the electrification of black townships.

The company has also lifted its interest in Aberdare, a cable manufacturer, to 54.5 per cent from 44.5 per cent.

INTERNATIONAL COMPANIES AND FINANCE

Asko DM870m rights to finance further expansion

By Haig Simonian in Frankfurt

ASKO, the fast-growing West German discount stores group, is launching a DM870m ($470m) rights issue to finance further expansion, its third call on shareholders in as many years.

The issue, due early next month, is being made on the basis of one new share for every two already held, and will be priced at DM780 a share against a closing price of DM1,016 for Asko ordinary shares in Frankfurt yesterday.

At a press conference yesterday, Mr Helmut Wagner, Asko's chief executive, announced this year's dividend on ordinary shares will be increased to DM15 for each ordinary share, from DM10 a share last year. Moreover, the new shares will be entitled to the full 1988 dividend.

Mr Wagner forecast that Asko's profits for 1988 are likely to rise to DM120m-130m, against DM85m before extraordinary items last year, while sales are set to jump to about DM15bn, against DM10bn last year.

The proceeds from the rights issue will be used to replace bank financing in Asko's continuing expansion drive, he said.

In particular, the company has now bought full control of Schaper, a stores group in which it has been been building up a majority stake since 1986.

According to the new arrangement, Schaper's previous owners, the Leibrand family, who still hold a 20 per cent stake in the company, have agreed to let Asko exercise its option to buy out their minority interest immediately, rather than by 1990 as originally set out.

That transaction, which was carried out at the beginning of this month, probably cost in the region of DM200m.

Moreover, Asko raised its stake in Massa earlier this year, another discount stores group in which it now holds a 50 per cent stake minus one share. In July, it took up its full entitlement in Massa's DM206m rights issue.

These transactions have been financed by raising Asko's bank borrowing, which now stands at about DM1.2bn.

However, once the proceeds of its rights issue have been received and further cash flow included, Asko expects its bank credits to fall to about DM450m by the end of the year. This compares with more than DM700m at the same time last year.

Esselte names chief executive

By Sara Webb in Stockholm

MR HANS LARSSON, the 46-year-old chief executive officer of Swedish Match, has been appointed managing director and chief executive of Esselte, the Swedish office automation and supplies group. He will take over when Mr Sven Wallgren, the present incumbent, retires next May.

As chief executive officer at Swedish Match since 1985, Mr Larsson has been credited with helping to restructure its problem areas – particularly its consumer products division – and to build up the conglomerate's international operations.

This was achieved through the acquisition of Pegulan, the West German flooring company, and Wilkinson Sword, the UK-based maker of matches and shaving products.

However, no sooner had the benefits of these measures begun to emerge in Swedish Match's profits than the group – which has interests in flooring, kitchens, packaging, and pulp chemicals as well as being the world's leading producer of matches – faced a successful SKr5.936bn ($938m) takeover bid in March from Stora, Sweden's leading forestry group.

Mr Larsson will remain as chief executive at Swedish Match until next May, when Mr Wallgren stands down at Esselte. The office supplies group had sales of SKr12.8bn and profits after net interest expense of SKr834m last year.

Under Mr Wallgren's leadership, Esselte has shifted from its heavy dependency on the printing and graphics business into such areas as personal computers, videos, pay TV, and office equipment, although it has sometimes been criticised for not being aggressive enough.

Procordia jumps by 49%

By our Stockholm staff

PROCORDIA, the Swedish state-controlled holding company, has reported a 49 per cent jump in its eight-month profits, attributed to a greatly improved performance by its pharmaceuticals, tobacco, and refreshments divisions – the latter aided by an unusually long hot summer which boosted consumption of soft drinks and beer.

Profit after financial items reached SKr1.284bn ($203m), against SKr863m in the comparable period last year.

Procordia said full-year profit would be "considerably better" than in 1987, hinting at a figure of about SKr1.78bn, a 30 per cent increase on the 1987 figure of SKr1.362bn. Group sales rose by 11 per cent, to SKr11.743bn.

Operating profit at Procordia's pharmaceuticals division KabiVitrum more than doubled, rising from SKr179m, to SKr392m, while sales increased by 37 per cent, to SKr1.948bn. The growth hormone side showed the biggest increase in profits, helped by improved cost-effectiveness.

Lower costs and increased cigarette sales helped Procordia to boost its tobacco division's profits by 22 per cent, from SKr436m to SKr533m. Division sales rose 6 per cent to SKr2.064bn.

Profits from the beer and soft drinks division soared 83 per cent, to SKr272m, while sales increased by 18 per cent, to SKr2.364bn.

Procordia's Sara Hotel chain recorded larger losses this year, of SKr47m. The group attributed these to the cost of breaking into the Danish and US markets.

Fermenta returns to the black

By Robert Taylor in Stockholm

FERMENTA, the Swedish antibiotics and chemicals group, reported a profit after financial items of SKr102m ($16.1m) for the first eight months of the year, compared with a SKr88m loss in the same period last year.

However, sales to August showed a fall on last year's figure, down from SKr2.2bn to SKr1.6bn. Fermenta blamed the low value of the dollar and factory disposals.

The group warned that the profit position for the rest of the year would only increase insignificantly because of the seasonal nature of the plant protection business.

It predicted that full-year profits after financial items would be around SKr110m, compared with a loss of SKr78m in 1987.

Profits in the first eight months were boosted by the SKr25m sale of the Cedar Chemical subsidiary, but the company said that the better overall performance was also due to growth in its subsidiaries.

KOP earnings stagnate

By Olli Virtanen in Helsinki

KANSALLIS-OSAKE-Pankki, the Finnish commercial banking group, saw its profit before appropriations and taxes stagnate at FM488m ($110m) during the first eight months of 1988, down by FM5m on the same period last year.

Total funding grew by 19 per cent, lending by 20 per cent, and total consolidated assets by 16 per cent to FM135.6bn.

Interest income and interest expenses increased by 20 per cent, to FM7.1bn and FM5.5bn respectively. Write-offs and guarantees jumped by 29 per cent to FM145m, which, according to Mr Jaakko Lassila, chairman, is "quite moderate in relation to the overall lending volume" of FM82.7bn.

Although the interim profit has declined in real terms, Kansallis expects to achieve a "good result" for 1988. According to Mr Matti Korhonen, senior vice-president, the bulk of the profits usually accumulates towards the end of the financial year.

The bank divided its operations into five independent profit centres at the beginning of the year.

International banking failed to achieve its growth target. Investment banking improved its earnings, but fell slightly from the set target.

The retail and private banking sector performed well.

The corporate banking sector, which now also includes 23 domestic branches, did not achieve its targets. The performance of the group's treasury operations was not disclosed.

Bergen Bank loss 'to rise'

By Karen Fossli in Oslo

BERGEN BANK, one of Norway's top three banks, announced yesterday that its current estimate for identified losses on loans and guarantees for 1988 would reach NKr1.1bn ($161m).

For the first eight months, group losses on loans and guarantees more than doubled to NKr733m, compared with NKr343m in the same period last year, in spite of a 15 per cent improvement in pre-tax profits.

Pre-tax profits for the group in the first eight months reached NKr550m, compared with NKr505m, while at the net level profits plunged to NKr153m, from NKr381m.

At end-August, group assets increased by 23 per cent to NKr116bn, due mainly to the June acquisition of the Nevi group, one of Scandinavia's largest financing and leasing companies.

In this eight-month period, Nevi experienced loan losses of NKr180 million.

Bergen Bank said yesterday that its earning capacity and financial standing remain sound, although losses on lending will place a burden on current year net profit.

The number of loans in foreign currencies grew in the period, which contributed to a lowering of interest margins, while the rising number of non-performing loans had a negative effect on interest margins. Overall, interest margins narrowed in the period.

Projected losses for 1988 are higher than earlier estimates, reflecting a strong rise in loan losses involving small and medium-sized businesses and the private consumer market.

Last month the bank postponed plans to launch a one-for-five rights issue to raise NKr302.7m.

De Benedetti raises stake in Milan bank

By Alan Friedman in Milan

MR CARLO De Benedetti agreed last night to pay L22.5bn ($16m) to buy a 10 per cent stake in Euromobiliare, the Milan merchant bank, thereby strengthening his position. The stake was sold by Mr Francesco Micheli, a maverick Milanese financier who bought the Euromobiliare holding last summer in the hope of merging his own investment bank, Sviluppo, with the more established Euromobiliare.

The sale, which raises Mr De Benedetti's holding in Euromobiliare from 14 per cent (held partly through his CIR group and partly through the Paris-based Dumenil Leble') to 24 per cent, brings to an end an episode that has involved not only Messrs De Benedetti and Micheli, but also other leading Euromobiliare shareholders such as Raul Gardini of the Ferruzzi group and Silvio Berlusconi, the television magnate.

Mr Micheli bought his 10 per cent Euromobiliare stake for L18bn last summer and then suggested a merger. Mr De Benedetti, according to those involved in the talks, was willing to consider a deal with Mr Micheli, but Mr Gardini, who owns 12.7 per cent of the bank, had serious reservations.

Mr Berlusconi (who owns 8.5 per cent of Euromobiliare), after initial enthusiasm for the merger, decided to stay on the sidelines when it appeared that the deal was raising hackles.

After a flood of rumours in the Italian financial world, Mr De Benedetti last night agreed to buy out Mr Micheli, who now makes a 25 per cent profit on his investment. The murger of Euromobiliare and Sviluppo, meanwhile, looks highly unlikely.

London eases rules on foreign listings

By Richard Waters in London

The London Stock Exchange has relaxed its rules for foreign companies seeking a listing in London. They will need to publish only three years of trading figures, rather than the five years previously required of them and still demanded of UK companies.

To take advantage of this concession, though, they must have been listed on a leading overseas exchange for two years and have at least £150m ($258m) worth of shares in public hands.

They must also confirm that a full five years' information would not give a reader a materially different view of the company, though this assurance need not be audited.

The concession is meant to reinforce the attractiveness of the London exchange to foreign corporations. More than 500 overseas companies are listed in London, compared with the 202 in Paris at the start of this year. Frankfurt by comparison had 208, Amsterdam 227 and Brussels 145.

The three-year rule is common on other exchanges, including New York and Tokyo.

Elders Investments states 5% holding in MB Group

By Maggie Urry in London

ELDERS Investments, an offshoot of Elders IXL, the Australian conglomerate best known for its Fosters lager, revealed last night that it holds a 5.1 per cent stake in MB Group, the UK packaging company formerly called Metal Box. Elders' has 17.115m MB shares worth £46.10m ($79.30m).

MB had earlier said that investigations into its share register had revealed the names of three unknown shareholders together holding 11.6m shares, 3.5 per cent of the group's total capital, through companies, two based in the British Virgin Islands and one in the Turks and Caicos Islands.

After that announcemant, Mr Andrew Cummins of Elders Investments telephoned Mr Brian Smith, chairman of MB, to say that it was behind the three companies and had further shares, some acquired in the last few days, taking its holding to just over 5 per cent.

Heavy trading in the shares and speculation of a possible bid for MB has pushed its shares up from 205p at the beginning of September to close in London yesterday at 269½p, up 6½p on the day. The announcement of Elders' interest came after the market closed. BTR, the acquisitive industrial group, had been rumoured as a likely bidder.

Mr Cummins, who is chief executive of Elders Investments and group director responsible for strategy at Elders IXL, said last night that he had told Mr Smith he was pleased with his investment.

However, he declined to say whether Elders would make a bid for MB, increase its stake, hold or sell the shares.

Courage, Elders' UK brewing business, is a customer of MB, which is a major UK supplier of drinks cans.

Earlier Mr Smith had stated that the buyars, then-unknown, "recognise that our clearly defined strategy and prospects for growth have been undervalued by the stock market."

MB has had a difficult time during the 1980s as it has restructured the business, a process involving massive redundancies. In that period, sales and profits, the latter held back by rationalisation costs, have appeared to stagnata. However, analysts believe that the quality of earnings has improved.

At the same time the group had invested heavily in new packaging technologies and has expanded its overseas interests.

Elders Investments, which is based in Hong Kong, has a capital base of $550m, much of which is currently in cash. It also holds a one-third stake in a property company, a 49 per cent stake in a US fruit juice business, a small holding in Annheuser Busch, the US brewing group, and "a couple of other major investments," Mr Cummins said.

Amax reduces interests in primary aluminium

By Kenneth Gooding, Mining Correspondent

AMAX, the US natural resources group, has sold a 25 per cent interest in two primary aluminium reduction plants to a Japanese consortium for $210m.

The acquisition gives the Japanese 106,000 tonnes of capacity. The consortium is led by the Mitsui trading group and includes Toyo Sash and Yoshida Kogya (YKK).

The plants are the Intalco facility in Ferndale, Washington, and the Eastalco plant at Frederick, Maryland.

It was pointed out the move was in line with Amax's policy of operating its primary aluminium plants as joint projects with other companies. Before Pechiney pulled out of the US in 1983 the Intalco and Eastalco facilities were jointly controlled

Mr Alan Born, Amax's chairman, said the sale did not reflect any reduction in the company's interest in primary aluminium but was part of a strategy to restructure its aluminium production capacity across a broad geographic base while maintaining its cost competitiveness.

The proceeds from the sale would be used for new hydro-based primary aluminium capacity. For example, a third potline for the jointly-owned Becancour smelter in Quebec, Canada, is under consideration. "We are also actively pursuing greenfield opportunities on hydro-powered systems," said Mr Born.

UK shoe group steps out

By Maggie Urry in London

BRITISH Shoe Corporation, part of the Sears retail group and the largest shoe retailer in the UK, has launched a new chain of shoe shops called Cable & Co.

Mr Andrew Leslie, managing director of BSC's fashion shoe business, is hoping that the new chain will capture 1 per cent of the £3bn ($5bn) shoe retail market. Initially 10 shops will be opened in the next six weeks, and if successful Mr Leslie expects to build a national chain of 100 or more stores.

BSC is estimated to have had 22.8 per cent of the market in 1987, according to Verdict Research, a retail market research group.

ANNOUNCEMENTS

COMPANY NOTICES

CHEMICAL NEW YORK CORPORATION
USD 250,000,000 FLOATING RATE SUBORDINATED CAPITAL NOTES
DUE OCTOBER 1997

In accordance with the provisions of the notes notice is hereby given that for the interest period from 11 October 1988 to 11 January 1989 the notes carry an interest rate of 8% per cent per annum. The interest payable on the relevant interest payment date 11 January 1989 against coupon n° 13 will be USD 1102.08 per USD 50,000 note.

AGENT BANK
CHEMICAL BANK

PERSONAL

INTERNATIONAL CAPITAL MARKETS

Dealers succumb to nerves ahead of US trade report

By Dominique Jackson

THE FALL of the US dollar on the foreign exchanges and growing nerves about today's US trade report for August combined to subdue Eurobond market business yesterday.

Only a couple of new deals in the non-dollar sectors emerged. Eurodollar bonds saw some buying interest early in the day but finished with small net losses, marked lower in line with falls on the US Treasury market. There was little genuine selling pressure seen.

The European Investment Bank tapped the Ecu sector with a Ecu200m seven-year issue at 7⅞ per cent and 101⅝ via Swiss Bank Corporation Investment banking. The deal saw good and particularly broadly-based demand and the lead manager said placement was virtually complete by the end of the day, when it was quoted bid at a discount within total fees.

The top quality of the borrower was one factor propelling the deal but it was probably also boosted by a return to favour of the Ecu itself, with European-based Japanese accounts reportedly eager buyers.

The success earlier this week of the Ecu100m four-year issue for Export Development Corporation of Canada via Banque Paribas Capital Markets would also seem to bear this out.

INTERNATIONAL BONDS

Brisk demand for the EIB deal was also seen from Swiss accounts from which the paper will probably find its way to the retail investors, who have always favoured the composite currency.

Ecu bonds have tended to underperform the remainder of the Euromarket in the recent rally and yields are consequently looking fairly attractive. There are also signs that the big institutions which have fought shy of the Ecu are now regaining their appetite and are considering the Ecu in a new light as a valid alternative to the dollar.

Banque Paribas Capital Markets was the lead manager on a five-year C$75m zero coupon bond for a Curacao-based financing unit of parent Banque Paribas. The deal was targeted at investors in the Benelux for whom this type of structure still holds particular tax advantages. The make-up of the co-management group was expected to ensure good placement for the bonds.

Fletcher Challenge, the forestry-based group which is New Zealand's largest company, issued the first dollar-denominated non-Japanese convertible bond issue seen for some time; a $75m 10-year issue on which the coupon is indicated at 8 per cent and the conversion premium between 12 and 15 per cent. Credit Suisse First Boston was the lead manager on the deal which was well bid at a discount of 1¾, comfortably within total fees.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
CANADIAN DOLLARS						
Banque Paribas◆	75	0	62½	1993	1¼/⅞	Banque Paribas
ECUs						
EIB◆	200	7⅞	101⅝	1995	1⅞/1¼	SBCI
US DOLLARS						
Fletcher Challenge§	75	(8)	100	1998	2½/1½	CSFB
Final terms fixed on:						
Kobe Steel (a)◆	500	4⅜	100	1992	2¼/1½	Nomura Int.
Bridgestone Corp(a)◆◆	300	4⅜	100	1992	2¼/1½	Nomura Int.
D-MARKS						
Arab Banking Corp.◆	150	6	100	1993	2¼	Commerzbank
SWISS FRANCS						
Bank of Nova Scotia◆	150	4⅞	101½	1998	2¼	Kreditbank(Suisse)
Nakayama Co.★‡◆	120	4⅞	100	1993	n/a	UBS
Belgium★‡◆	100	4⅞	100¼	1993	n/a	Credit Suisse
Nihon Iyakuhin Kogyo★‡◆	20	4⅞	108¼	1993	n/a	B.della Svizz.Italiana
Final terms fixed on:						
Fujita Corp(b)★‡§◆	100	½	100	1993	n/a	Credit Suisse
Fujita Corp(c)★‡§◆	100	½	100	1994	n/a	Credit Suisse
Michimo Corp.(d)★‡§◆	140	½	100	1994	1⅛	Handelsbank NatWest
Nihon Nohyaku(e)★‡§◆	100	½	100	1994	1⅛	Handelsbank NatWest
Kyoritsu Ceramic(f)★‡§◆	20	½	100	1994	1⅛	Bank Julius Baer

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ◆Final terms. a) Coupon cut by ⅜%. Put options fixed: b) 31/3/91 at 108⅜ to yield 3.828%. c) 31/3/91 at 108⅝ to yield 3.878%. d) 31/3/91 at 108⅛ to yield 3.822%. e) 31/3/91 at 108¼ to yield 3.90%. f) 31/3/91 at 108⅝ to yield 3.935%.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on October 12

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7⅞ 92	200	94⅝	95⅛	[illegible]	[illegible]	9.32
All Nippon Air 9⅝ 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10.02
Amer. Brands [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	9.92
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.02
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.05
Barc. Bk. Fin. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	8.90
B.F.C.E. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.06
British Telecom 7⅞ 96	250	90⅞	91⅜	−0⅛	+0⅛	9.25
Cal.Nat.Telecom 8½ 93	160	†97¼	97¾	0	+0¼	9.20
Canada 9 96	1000	99¼	99¾	−0⅛	0	9.10
Canadian Pac 10¼ 93	100	†102¾	103¼	0	0	9.82
C.C.C.E. 7¾ 91	113	†95	95½	−0⅛	+0⅛	8.98
C.C.C.E. 9⅛ 95	300	99⅝	100⅛	−0⅛	+0⅛	9.23
C.N.C.A 7⅞ 91	150	94⅝	95⅛	−0⅛	0	9.16
Credit Lyonnais 9 91	200	99¾	100¼	−0⅛	+0⅛	8.95
Credit National 8¼ 93	200	96⅝	97⅛	−0⅛	+0⅛	9.10
Credit National 7⅞ 92	100	94⅞	95⅜	−0⅛	+0⅛	9.06
Credit National 7½ 91	150	93¾	95½	−0⅛	+0⅛	9.02
Dai-Ichi Kan 9⅞ 92	150	100⅞	101⅜	−0⅛	+0⅛	9.26
Denmark 7⅞ 92	500	94⅛	94⅝	−0⅛	+0⅛	9.10
E.E.C. 7 91	100	94⅝	95⅛	−0⅛	+0⅛	8.93
E.E.C. 7¼ 93	250	93⅜	93⅞	−0⅛	+0⅛	9.05
E.E.C. 8 90	350	98⅞	99⅜	0	+0⅛	8.59
E.I.B. 7⅞ 93	100	93⅞	94⅜	−0⅛	+0⅛	9.12
E.I.B. 9⅞ 97	150	100⅛	100⅝	−0½	+0½	9.28
Elec. De France 9 98	200	97½	98	−0⅛	+0⅛	9.35
Finland 7⅞ 97	200	91⅛	91½	−0½	+0⅛	9.43
Finland 7½ 93	200	93⅝	94⅛	0	+0⅛	9.08
Finn.Exp.Cd. 8½ 92	200	97⅞	98⅜	−0⅛	+0⅛	9.13
Ford Motor Credit 8 91	250	97⅛	97⅝	−0⅛	−0⅛	9.15
Gen Elec Credit 10¼ 00	200	100	100½	−0⅛	−0⅛	10.19
G.M.A.C. 8 89	250	98⅞	99⅜	−0⅛	−0⅛	8.09
Gen. Mtrs. Corp. 9⅛ 92	200	99⅝	100⅛	−0⅛	+0⅛	9.14
Halifax BS 9½ 93	200	†100⅞	101⅛	0	+0⅛	9.20
Hoesch 8¼ 97	100	†93¼	93¾	0	+0½	9.38
Italy 9 90	1000	100⅛	100⅜	−0⅛	−0⅛	8.71
L.T.C.B. of Japan 8 91	100	97⅛	97⅝	−0⅛	+0⅛	8.97
L.T.C.B. of Japan 8 97	200	90⅞	91⅛	0	+0⅛	9.59
Mercedes-Benz Cd. 8½ 95	100	†96¾	97¼	0	+0⅛	9.12
Metropolis Tokyo 9¼ 93	200	101½	102	0	+0⅛	8.96
Morgan Guaranty Tst. 7 90	150	97	97½	−0⅛	−0⅛	9.10
Norway 8⅛ 93	500	99⅛	99⅝	−0⅛	+0⅛	8.90
Pepsico Inc 7⅞ 93	200	†93⅞	94⅛	−0⅛	0	9.04
Portugal 8⅞ 91	300	97½	98	+0⅛	+0⅛	9.28
Prudential Crp. 8⅞ 94	125	—	—	—	—	—
Qantas Airways 10⅞ 95	140	104⅛	104⅝	−0⅛	+0⅛	9.45
Saskatchewan 10⅞ 92	100	104⅛	104⅝	−0⅛	0	9.15
State Bk S Aust 9¼ 93	100	99⅞	100⅜	−0⅛	+0½	9.22
Swed Exp Cred 7⅛ 91	100	†94⅞	95⅜	−0⅛	+0⅛	9.87
Swed Exp Cred 10 92	100	†102	102½	−0⅛	0	9.21
Sweden 7 91	250	94⅞	95⅜	−0⅛	0	8.93
Sweden 7 92	250	†94⅛	94⅝	−0⅛	+0⅛	8.93
Sweden 8⅛ 96	200	97⅛	97⅝	−0⅛	+0⅛	9.23
Sweden 8½ 92	200	†98⅜	98⅞	−0½	0	8.92
Victorian Rep 11⅛ 92	150	106⅞	107⅜	−0⅛	+0⅛	9.14
World Bank 7 92	300	†94⅛	95	0	+0⅛	8.88
World Bank 9 97	300	98⅞	99⅜	−0⅛	+1	9.14
Yasuda Trust Fin 8½ 93	100	97	97½	0	+0⅛	9.26
Average price change... On day −0⅛ on week +0⅛						

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	101	101½	−0⅜	−0⅛	5.75
Arts Fin.SVS 5⅞ 92	100	100⅜	100⅞	+0⅛	+0⅛	5.65
Bank of Tokyo 5⅞ 93	100	100⅞	101⅜	+0⅛	+0⅜	5.48
Central BK. Turkey 7 92	200	103½	104	0	+0⅛	5.91
Commerzbank o/s. 5⅛ 93	300	99	99½	0	−0⅛	5.57
Degussa Int. 6⅛ 97	200	99⅛	99⅝	0	+0⅛	6.21
E.I.B 5½ 98	150	96⅛	96⅝	0	+0⅛	5.99
E.I.B 6 97	300	99⅝	100⅛	−0⅛	−0⅛	6.01
E.I.B. 6⅛ 96	300	101⅛	101⅝	−0⅛	0	5.89
E.I.B. 6⅛ 97	400	100⅞	101⅛	0	+0⅛	5.95
E.I.B. 6⅞ 95	300	105⅞	106⅛	−0⅛	+0½	5.84
Euro.Coal & Steel 5⅞ 97	175	99⅛	99⅝	0	+0⅛	5.95
Eurofima 6⅛ 96	100	102½	103	−0⅛	−0⅛	5.79
Elec De France 5⅞ 97	300	98⅛	98⅝	+0⅛	+0⅛	5.97
Forsmark Krag. 5⅞ 93	200	97⅞	98⅜	+0⅛	+0⅛	5.61
I.A.D.B. 6 97	200	99⅝	100⅛	0	+0⅛	5.99
Japan Dev. Bk. 5⅞ 95	300	†97½	98	0	+0½	5.79
Japan Finance 5⅞ 97	100	97⅛	97½	+0⅛	+0⅛	6.15
Ireland 6½ 97	300	101⅛	101⅝	+0⅛	+1	6.26
Korea Dev BK 6⅛ 93	100	102⅞	103⅛	0	+0⅛	5.86
Malaysia 6⅛ 94	150	100⅛	100⅝	−0⅛	+0⅛	6.14
Nat. West BK. PLC 6 98	300	†97⅞	98⅜	+0⅛	+0⅛	6.30
Nippon Teig.&Tel. 6 95	400	†100⅝	101⅛	−0⅛	+0⅛	6.02
Oesters. Kontbk. 5 93	300	98⅛	98⅝	+0⅛	+0⅛	5.43
Portugal 5⅞ 92	150	100⅜	100⅞	0	−0⅛	5.56
Portugal 6⅞ 95	150	102⅜	102⅞	+0⅛	+0⅛	6.14
Privatbanken 5⅞ 93	150	97⅛	97⅝	+0⅛	+0⅛	5.94
Royal Insurance 5½ 92	300	100⅛	100⅝	0	+0⅛	5.37
Soc Cent Nuclear 7⅞ 95	150	103⅜	103⅞	0	−0⅛	6.58
Turkey 6½ 95	500	†98	98½	0	0	6.83
Westlb. Finance 5 93	200	*†98	98½	0	+0⅛	5.45
World BK. 6⅛ 97	600	101⅝	102	−0⅛	+0⅛	5.87
Average price change... On day 0 on week +0⅛						

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5 96	150	†101⅛	102	−0⅛	0	4.74
Asfinag 5 03	100	†100½	101½	−0⅛	+0⅛	4.90
B.F.C.E. 4½ 98	200	†98⅛	99	0	0	4.64
B.M.W.Fin.Neth. 5 13	150	†95⅛	95⅝	+0⅛	+0⅛	5.32
Britannia B/S. 4⅛ 94	100	†97½	98	0	0	4.71
CIR. Int. W/W 3 93	125	†99⅝	100½	+0½	−0⅛	3.00
Credit Lyonnais 4⅞ 00	100	†97½	98	0	−0⅛	5.01
E.I.B 4⅞ 98	150	†99½	100	0	−0⅛	4.65
Fletcher Chall. 4⅞ 98	150	†96⅛	97	+0⅛	+0⅛	5.30
Kobe City 4⅞ 98	150	†99	99⅛	+0⅛	+0⅛	4.74
Leeds Perm. B/S. 4⅞ 93	200	†98⅛	98⅝	−0⅛	+0⅛	4.49
Malaysia 5⅛ 98	100	†98⅞	99⅛	0	+0⅛	5.38
Maxwell Comm.Crp. 5 95	150	†101½	102	0	0	4.68
Nationwide Ang.B/S. 4 93	200	†97½	97⅞	0	+0½	4.57
Nippon Teig.&Tel 4⅜ 95	200	†98½	99	−0⅛	−0⅛	4.46
Oesters.Ktbk. 5 03	75	†99⅛	100	+0⅛	+0⅛	5.01
Rep.National Bk. 4 93	150	†96⅞	97⅛	+0⅛	+0⅛	4.34
Thailand 4⅝ 95	200	†95⅞	96⅛	−0⅛	−0⅛	5.34
World Bank 5 03	150	†100⅞	100½	+0⅛	+0⅛	4.96
Average price change... On day +0 on week +0⅛						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅛ 92	55	101⅛	102	0	+0⅛	4.86
Belgium 4⅞ 94	45	97⅛	98	+0⅛	+0½	5.06
Canada 4⅞ 92	80	98⅝	98⅞	−0⅛	+0⅛	4.82
Elec. De France 5⅞ 95	28	100⅞	101⅛	+0⅛	+0⅛	4.93
Ireland 5⅞ 93	30	99⅛	100⅛	+0⅛	+0½	5.12
Norway 5⅛ 95	50	100	100⅛	+0⅛	+0⅛	5.10
Rep. of Italy 5⅞ 92	150	103⅛	103⅝	+0⅛	+0½	4.67
Sweden 4⅝ 93	50	98⅞	99⅛	+0⅛	+0⅛	4.87
World Bank 5⅞ 92	50	102⅞	103	+0⅛	+0⅛	4.68
Average price change... On day +0⅛ on week +0⅛						

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat.BS 10⅛ 93 £	50	99⅜	99⅞	−0⅛	+0⅛	10.37
Alg. Bk. Ned. 5½ 92 FL	150	97⅞	98⅜	0	+0⅛	6.12
Amro Bank 6⅛ 92 FL	150	100⅛	100⅝	0	0	6.09
Aust.Ind.Dev. 12⅞ 95A$	100	98⅝	99⅛	0	+0⅛	13.16
Barc. Bk. 10⅛ 97 £	250	97	97⅛	−0⅛	+0⅛	10.72
BP Capital 9⅞ 93 £	100	97⅛	97⅝	−0⅛	+0⅛	10.48
British Airways 10 98 £	100	95⅛	95⅝	−0⅛	+0⅛	10.79
C.I.B.C.Mort. 10⅛ 93 C$	100	†99⅞	100	−0⅛	+0½	10.79
Comm. Bk.Aust. 12⅞ 93A$	100	96⅛	96⅝	0	+0⅛	13.51
Coop.Ctr.Rabo. 6⅛ 93 FL	100	101	101½	0	+0⅛	5.90
Coop.Ctr.Rabo. 6 92 FL	200	101	101⅛	0	+1⅛	5.61
Denmark 7⅞ 92 ECU	100	101½	102⅛	+0⅛	0	7.11
Dhoas 11 95 £	90	†98⅞	99⅛	−0⅛	+0⅛	11.40
Deut. Bk. Aust. 12⅞ 93 A$	70	100	100⅛	0	+0½	12.68
Eastman Kodak 13 90 A$	100	98⅝	98⅞	−0⅛	+0⅛	13.99
E.I.B. 7 96 LFr	100	*†97⅞	98⅜	0	−0⅛	7.31
Elec.France 10⅛ 93 C$	125	†99⅛	99⅝	−0⅛	+0⅛	10.33
Euratom 7⅞ 97 ECU	145	97½	98	+0⅛	+0⅛	7.73
Eurofima 7½ 92 FL	50	†104½	105⅛	0	0	5.92
Fed.Bus.Dv.Bk. 9⅞ 92 C$	75	†98½	99	−0⅛	+0⅛	10.14
Ford Cr.Can. 10⅛ 93 C$	100	†101⅛	101⅝	−0⅛	+0½	10.31
Gillette Can. 9⅞ 93 £	70	†93	93½	0	+0⅛	11.50
G.M.A.C. 9⅞ 93 C$	150	†97⅞	98⅛	−0⅛	+0⅛	10.29
G.M.A.C. 9⅛ 92 C$	75	†94⅛	95⅛	0	0	11.06
G.M.A.C Aus. Fin. 14 90 A$	50	100⅜	100⅞	0	+0⅛	13.47
Halifax BS 10⅛ 97 £	100	97⅛	97⅝	−0½	+0½	10.84
Imp Chem Inds 10 05 £	100	96⅛	96⅝	−0⅛	+0⅛	10.46
Inv.Industry Int. 10 93 £	60	97⅞	98	−0⅛	+0⅛	10.66
Lloyds Bank 10⅛ 98 £	150	93	93½	−0⅛	+0⅛	11.06
Montreal Tst. 10⅛ 93 C$	100	†100⅛	100⅝	−0⅛	+0½	10.62
Mtge.Bk.Den. 6⅛ 91 FL	100	100⅞	101⅛	0	+0⅛	6.26
Nat. West. Bk. 13⅛ 92 A$	50	†98⅛	98⅝	0	+0⅛	13.64
Nationwide BS 10⅛ 93 £	75	97⅞	98⅜	0	+0½	10.64
Ned. Midd. Bank 6 92 FL	150	99⅞	100⅛	0	+0⅛	5.99
New Zealand 9½ 93 £	100	96	96½	−0⅛	+0½	10.55
New Zealand 7⅞ 93 ECU	200	100⅝	101⅛	+0⅛	+0⅛	7.49
Oesters. Ktbk. 13⅛ 94 A$	75	101⅞	102	+0⅛	+0⅛	13.15
Prudential Fin. 9⅞ 07 £	150	90⅞	91⅛	−0⅛	+0⅛	10.51
Royal Bk.Scot. 10⅛ 98 £	125	97⅛	97⅝	−0⅛	+0½	11.11
Saskatchewan 9⅞ 91 C$	150	†99⅝	99⅞	−0⅛	+0½	10.00
S.D.R. 7⅞ 95 ECU	90	†99½	100	+0⅛	+0⅛	7.79
World Bank 5⅜ 92 FL	100	99½	100⅛	0	+0⅛	5.82
World Bank 13⅛ 92 A$	100	†101	101½	0	+0½	12.89
Zentrspk. 13⅛ 93 A$	75	98½	99	−0⅛	0	13.60

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic.Bld 94 £	.08	99.60	99.65	21/01	10.99
Belgium 91 US	0	100.50	100.60	21/02	9
Britannia 5 93 £	0⅛	99.87	99.92	10/10	10.37
Chase Manhattan Crp. 91 US	0⅛	99.68	99.85	22/02	8.94
Citicorp 98 US	10⅛	97.90	98.15	30/11	8.94
EEC 3 92 DM	10	100.85	100.94	22/02	5.63
Halifax BS 94 £	.1	99.79	99.84	9/11	11.16
Invt. in Industry 94 £	0	100.04	100.11	24/02	11.87
Leeds Perm. B/S. 94 £	0⅛	99.97	100.02	13/01	10.44
Midland Bank 01 £	.1	95.75	96.75	11/02	11.41
Milk Mkt.Brd. 5 93 £	0⅛	99.85	99.91	30/12	12.06
New Zealand 5 97 £	.07	99.74	99.84	18/11	11.62
New Zealand 5 01 US	0	99.97	100.07	4/02	8.62
State Bk. New. 98 US	.188	100.43	100.53	13/02	8.87
Woolwich Equit.BS. 93 £	0⅛	99.81	99.87	13/10	10.44
Woolwich 5 95 £	0⅛	99.67	99.72	21/11	11.62
Average price change... On day +0.02 on week +0.09					

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcoa 6⅛ 02 US	8/87	62.	105⅛	106⅛	0	17.11
Alco Health 6⅛ 01 US	17/86	26.25	93	95	−2	0.78
Amer. Brands 7⅞ 02 US	9/87	56.7	104	105	−0⅛	8.72
Ashikaga Bank 2⅞ 02 US	4/87	967.	126⅛	127⅜	−0⅛	1.11
Asics 5 92 DM	12/83	472.7	189⅛	190½	0	8.74
CBS. Inc. 5 02 US	4/87	200.	97⅛	98⅛	−0⅛	9.15
Fujitsu 3 99 US	5/84	1106.	252⅞	253⅞	−7⅛	−6.91
Kinki-Sogo Bk. 2⅞ 03 US	4/88	1069.	136	138	+1	9.30
Land Secs. 6⅛ 02 £	6/87	6.72	93⅛	94⅛	−0⅛	10.20
MCA Inc 5⅛ 02 US	10/87	69.62	82⅛	83½	+0⅛	21.35
Minolta Camera 2⅞ 94DM	12/86	1004.	96⅛	97⅛	−0⅛	26.40
Mitsubishi Bk. 1⅞ 02 US	9/87	3157.	116	117⅛	+6⅛	8.85
Mitsui Trust 2⅞ 01 US	10/86	1903.	123⅜	125	+3⅛	5.36
Next Plc 5⅞ 03 £	11/87	4.3	100⅛	101⅛	0	137.74
[illegible]	4/88	804.	104⅛	105⅛	0	4.88
[illegible]	4/87	1318.	173⅜	174⅛	−7⅛	−4.17
[illegible]	4/87	64.75	66⅛	67	−0⅛	53.99
[illegible]	1/88	3.5	112	113	−0⅛	3.89
[illegible]	1/87	5.4	90	92	−0⅛	11.32
[illegible]	[illegible]	4.41	98⅛	99⅛	+0⅛	21.64
Texas Inst. 2⅞ 02 US	9/87	82.87	73⅛	74½	+0⅛	52.43
W.R. Grace 6⅛ 02 US	9/87	42.12	79⅛	80⅛	−0⅛	30.01

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Australian bank bond issue sets precedents

By Chris Sherwell in Sydney

THE National Australia Bank, one of the country's Big Four trading banks, yesterday set two notable precedents when it raised A$300m ($241.5m) through the issue of 10-year subordinated bonds on the domestic market.

It was the country's first issue of 10-year stock – the longest-dated on the Australian market – by a non-government institution. It was also the first issue of term subordinated debt to qualify under the Reserve Bank's capital adequacy guidelines released in August.

Yesterday's announcement followed NAB's separate US$250m issue of 10-year Yankee bonds on the US market 12 days ago. It also came in the wake of last month's sale of all its remaining loans to debt-rescheduling countries.

The issue was priced at 13.25 per cent, 25 basis points over New South Wales Treasury Corporation benchmark stock. As a result of investor interest, it was increased to A$300m from the originally intended A$200m.

Mr John Astbury, NAB's general manager global treasury, described the offer as a benchmark for future issues, and said there was investor demand for prime quality, long-term corporate debt.

Australia has seen strong growth in its domestic corporate bond market over recent months, and especially over the past few weeks. The main reason is the federal government's announcement in its August budget of a fiscal surplus and a zero public sector borrowing requirement in the current financial year.

The Reserve Bank's new capital adequacy rules, which give limited recognition to term-subordinated debt, are another reason. In NAB's case, the bank's total capital resources now exceed the 8 per cent of risk-weighted assets required by the Reserve Bank.

Last month, ANZ Bank, another of the Big Four, announced a A$500m issue of five-year transferable certificates of deposit. This was too short-dated to qualify under the Reserve Bank's rules, but was another boost for the fledgling domestic bond market.

Yesterday's issue by NAB was led by First Boston Australia and National Australia. The co-management group consisted of Dominguez Barry Samuel Montagu, Bain & Co and Chase AMP Acceptances.

ADB to assess Asian markets

A REGIONAL study of Asian securities markets is to be carried out soon in eight developing countries, the Asian Development Bank (ADB) said yesterday, AP-DJ reports.

The study, funded by an ADB technical assistance grant of ringgit 597,000 ($222,800) is to assess the structure, operations and prospects of securities market institutions in ADB developing member countries.

The selected countries are Malaysia, India, Indonesia, South Korea, Pakistan, the Philippines, Sri Lanka and Thailand.

The study is expected to take 18 months. It will assess the securities markets in the countries concerned in terms of their objectives, policies, practices, capabilities, management, staff and operational and financial conditions.

Philadelphia fixes date for longer trade

By Our Euromarkets Staff

THE Philadelphia Stock Exchange has announced it is to begin its extended morning trading session on January 23 next year.

Under the new extended hours, first announced last July, the exchange's currency options markets will open at 4.30am local time. Trading will last a total of 14 hours – in a day spanning 18½ hours – in an attempt to cater to investors throughout the European time zones.

French to securitise banking credits

FRENCH BANK credit securitisation is likely to start early next year, French government officials said yesterday, Reuter reports.

At a news briefing, they said the project, which envisages changing the law applying to mutual funds, would shortly be brought before parliament for debate.

The project was yesterday approved in principle by the French cabinet.

INTERNATIONAL CAPITAL MARKETS

Setback for dollar puts US bond prices in a spin

By Janet Bush in New York and Stephen Fidler in London

US TREASURY bonds fell sharply yesterday in response to a plunge in the dollar, particularly against the yen, and nerves about today's release of US trade figures for August.

Market sentiment was also hit by doubts about the impact of next month's quarterly refunding auction. The chances for the sale of a long bond at the auction have improved recently.

At the New York midsession, long dates maturities were quoted as much as ¾ point lower. The yield on the Treasury's benchmark long bond rose to 8.92 per cent.

The main factor depressing bonds was a fall in the dollar to below Y130 on apparent nervousness about whether the US remains committed to supporting the US currency at around current levels. At New York's midsession, the dollar was quoted at its session lows of Y129.95.

In Tokyo, currency dealers speculated that the US may allow the dollar to slide again after its rally this year because of concern about the sluggishness of progress in cutting the trade deficit. Rumours surfaced that the August shortfall due today could be as much as $12bn, compared with $9.5bn in July.

Another negative influence was news that the Senate had passed a major tax corrections bill late on Tuesday night which would give the Treasury unlimited authority to issue long bonds. The bill still has to go to a conference between the Senate and the House but the chance of a long bond has been considerably enhanced by the vote.

The August trade figures are due at 1.30pm London time today. Bond traders are clearly concerned that the current account deficit will fail to match with relatively good figures thrown up in July, when the the current account was $3.5bn in the red.

A certain amount uncertainty has also crept in ahead of the raft of indicators due out on Friday.

Led by the September producer price index, these could potentially provide a number of shocks about the underlying rate of inflation.

GOVERNMENT BONDS

WHILE most European bond markets wavered over the mixed signals being sent by a weak US dollar and a sharply lower US bond market, Japanese bonds moved convincingly ahead.

The dollar's weakness was the main market factor: the dollar dropped through Y130 for the first time since June and the Bank of Japan was not detected to be intervening in a convincing enough fashion to stem the fall.

Most of the action took place during the Tokyo day as dollar slippage was encouraged by remarks from Mr Satoshi Sumita, the governor of the Japanese central bank. Tokyo's firm tone was encouraged by reports of Bank of Japan buying of bonds.

In London, the December contract on the London International Financial Futures Market rose by a point. The benchmark government bond, the number 105 with a 5 per cent coupon maturing in 1997, rose to be quoted in late trading at 4.75/74 per cent, compared with 4.83 the previous day.

THE UK government bond market suffered in spite of the unusual strength of sterling against both the weaker dollar and the D-Mark.

In common with other markets, gilts were transfixed ahead of tomorrow's US trade report for August.

The long end of the market was down by over a ½ point but prices of short maturity bonds also fell, unusually in the face of the sterling strength.

This was said to be largely due to an evaporation of expectations that short-term British interest rates will be cut at any time soon, following statements from Mr Nigel Lawson, the Chancellor.

Nevertheless, the market remains in a strong technical position, particularly at longer maturities, although dealers said there had apparently been no outright buying of stock yesterday by the Bank of England, in contrast with previous days.

THE West German market recovered early small losses to finish the day nearly unchanged, basically underpinned by the firmer D-Mark.

The Bundesbank effected a new repurchase agreement to replace funds being drained from the market by the maturity of a repurchase pact.

The Bundesbank only added DM16bn, with nearly $18.5bn draining from the market. Although this was less than expected, it had little effect on market prices since domestic liquidity appears to be adequate.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	111-01	-1/32	10.04	10.21	10.69
		8.750	9/97	94-28	-4/32	9.63	9.79	10.08
		9.000	10/08	99-21	-9/32	9.04	9.13	9.46
US TREASURY*		9.250	8/98	102-24	-13/32	8.82	8.82	8.91
		9.125	5/18	102-04	-23/32	8.92	8.93	8.99
JAPAN	No 105	5.000	12/97	101.5877	+0.517	4.76	4.97	5.15
	No 2	5.700	3/07	106.9218	+0.816	4.98	5.18	5.46
GERMANY		6.500	5/98	100.2250	-0.050	6.49	6.56	6.62
FRANCE	BTAN	9.000	7/93	101.8709	-0.155	8.48	8.47	8.66
	OAT	8.500	6/97	99.2750	-0.450	8.61	8.63	8.97
CANADA*		9.500	10/98	97.7500	-0.375	9.86	9.90	10.08
NETHERLANDS		6.500	7/98	101.7250	+0.100	6.29	6.43	6.56
AUSTRALIA		12.500	1/98	103.3740	-0.114	11.88	11.90	11.77

London closing. *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Paris SE considers charge for listings

By George Graham in Paris

IN AN attempt to reorganise its operating budget, France's Stock Exchange is considering the introduction of charges for companies wishing to list their shares on the market.

Mr Gerard de la Martinière, who took over as chief executive of the Paris bourse in June in the wake of heavy trading losses on the exchange's own reserve funds, said the market had to reconsider how it would cover its operating costs. These are currently met entirely by a levy on broking firms, linked to turnover.

He said the exchange would have to revise downwards its operating budget.

It must also start to market its financial information. "We do not sell enough, and we do not sell it dearly enough," he said.

But Mr de la Martinière stressed the exchange had to reconsider the fact that companies issuing securities paid nothing towards the costs of the Paris exchange.

The exchange has no listing charges, although companies must pay to have their share price quoted in French daily newspapers – and many companies complain of a "racket" over financial advertising.

Even brokers sponsoring the introduction of a company have only recently begun to charge directly for the service, receiving instead commission on the shares introduced.

One senior Paris broker said: "The French love getting their services free."

On the London Stock Exchange, in contrast, a company with a market capitalisation of say £2bn ($3.4bn) on its introduction would have to pay an initial fee to the exchange of £71,420, with an annual charge for its listing of £18,640 thereafter. The fees are halved for foreign companies.

Mr de la Martinière said the level of operating costs would be an essential point in the competition between different financial market places. He added that, at the moment, Paris' costs appeared to be near the average.

Issue tests for Canadian bonds

Ted Jackson reports on Ottawa's switch to the auction system

TO auction or not to auction? The question has been under assessment by those responsible for the Canadian Government's bond distribution system for the past five years.

Since auctioning a two-year bond in September 1983, the Department of Finance has gradually increased to about 60 per cent the proportion of government debt which is distributed by the method. The innovation has been so successful that observers have begun to wonder why Ottawa doesn't auction all its bonds.

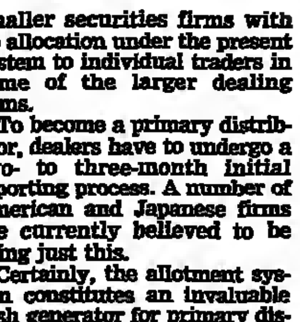
The alternative is the traditional allotment approach, whereby a proportion of the issue is allotted to each of more than 50 primary distributors.

The Government pays distributors a commission ranging from C$2 to C$5 per C$1,000 face value for selling their bonds, with the largest investment dealers being allotted about 12 per cent of a typical issue.

Before 1983, all Canadian government bonds were distributed by this method, with the exception of an abortive experiment with two auctions more than 25 years ago.

Critics of the status quo – often characterised as a typical Canadian compromise – want to see still greater use of auctions as a fairer and more cost-efficient marketing method. There is no reason for Ottawa to continue paying commissions to brokers through the traditional allotment system, they argue, pointing south to the US where all government bonds are auctioned.

The critics range from smaller securities firms with no allocation under the present system to individual traders in some of the larger dealing firms.



Brian Mulroney: commanding lead over rivals

To become a primary distributor, dealers have to undergo a two- to three-month initial reporting process. A number of American and Japanese firms are currently believed to be doing just this.

Certainly, the allotment system constitutes an invaluable cash generator for primary distributors at a time when stock market margins are under pressure. More than half of the 70 member firms on the Toronto Stock Exchange lost money in the first six months of this year, with overall second-quarter profits plunging to C$9.6m (US$8m) from C$97m in the corresponding 1987 period.

With the Government deeply in deficit, the flow of new state bonds remains substantial. And despite far greater volumes, commission rates are essentially the same as they were 20 years ago.

For a larger dealer allotted the maximum 12 per cent share of government issues, commission earnings from distributing federal bonds in 1987 would have been between C$5m and C$7m.

Supporters of the allotment system feel a complete switch to auctions is impractical because of the relatively small size and illiquidity of the Canadian bond market. They say allotment is needed to encourage firms to improve market liquidity by committing capital to the bond trading business.

Mr Vaughn O'Regan, securities department chief at the Bank of Canada – the Department of Finance's fiscal agent – points out that the desire to keep future allotments high acts as an incentive to dealers to maintain their auction bids at competitive levels.

"If we go to all auction, the market could adjust their bids downwards to include commission," he argues.

Another reason for maintaining a distribution syndicate, Mr O'Regan feels, is to ensure that a broad distribution of bonds is consistently achieved.

"Some of the smaller regional firms might not have the resources to put in winning bids if we went to an all auction system," he says.

None the less, Mr O'Regan does not rule out the possibility that Ottawa may end up auctioning all its bonds. "It is conceivable that Canada will one day go over to an all auction system."

As for recent trading trends, the Canadian bonds have benefited substantially from the Canadian dollar's 9 per cent advance this year. Foreigners have been flocking in and, if current trends continue, the market is set to attract more than C$15bn in foreign funds this year.

That would be the second best performance of the decade, being surpassed only by 1986's record C$22bn in foreign investment.

So far this year, about US$9bn in global bond funds have been floated in the US, with Canada receiving more than its fair share of this cash source.

Mr Jamie Kiernan, president of Goldman Sachs Canada, said yesterday: "Managers of these funds have been investing primarily in the high-yielding currencies and they have bought Canada pretty aggressively."

According to Salomon Brothers, the Canadian government bond market has been the second-best performing debt market in the world this year – after Australian bonds – garnering a total return of more than 15 per cent in US dollars.

The recent call by Mr Brian Mulroney, Prime Minister, for a November 21 election and his dramatic turnround in the public opinion polls has rekindled a strong rally in the Canadian dollar. An opinion poll on Tuesday gave Mr Mulroney and his Progressive Conservatives a commanding lead over the two rival opposition parties, the Liberals and the New Democrats.

Adviser named in HK bank sale

By John Elliott in Hong Kong

MORGAN Grenfell was yesterday appointed by the Hong Kong Government as its financial adviser to assist in the sale of the Hang Lung Bank, which the Government has owned since the bank collapsed in 1983.

About 12 banks, mostly from outside the colony, are believed to have expressed (in the past) an interest in buying tha bank. These and other potential bidders will be approached by Morgan Grenfell when it has prepared a memorandum of information.

Morgan Grenfell was chosen from about 10 applicants.

The Hang Lung, one of the colony's smaller banks with net assets totalling HK$350m (US$44.8m), has more than 25 branches in Hong Kong. These are likely to attract bidders as it is impossible now to obtain a multi-branch licence from the Government.

In August the bank announced a small profit of HK$14.4m for the year to last March.

Earlier, a significant stumbling block to a share sale was removed when a HK$421m claim against the bank was dropped by liquidators of Dollar Credit and Financing, once closely associated with the Hang Lung.

The sale is unlikely to be completed until early next year. It will leave only one rescued bank in government hands – the Overseas Trust Bank, which is unlikely to be put on the market for some time.

Bank of Tokyo to expand units

By Our Financial Staff

THE BANK of Tokyo will boost the capital of its securities subsidiaries in New York and London to enable an expansion of overseas brokerage operations, a bank official said yesterday.

BOT Securities, the US unit, will triple its capital to $30m and hire more staff to expand Treasury bond dealing operations. Bank of Tokyo Capital Markets, the bank's UK arm, will double its capital and hire traders to promote multiple currency bond trading.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed Oct 12 1988 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act. at (25%))	Est. P/E Ratio (Net)	xd adj. 1988 to date	Tue Oct 11 Index No.	Mon Oct 10 Index No.	Fri Oct 7 Index No.	Year ago (approx.) Index No.
1 CAPITAL GOODS (210)	802.89	-1.3	10.76	4.15	11.49	21.51	813.39	813.93	809.42	1013.81
2 Building Materials (29)	1088.34	-1.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1242.87
3 Contracting, Construction (37)	1606.17	-1.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1805.98
4 Electricals (12)	2297.53	-0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2598.51
5 Electronics (29)	1707.57	-1.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2182.11
6 Mechanical Engineering (57)	421.01	-0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	544.57
8 Metals and Metal Forming (7)	490.79	-0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	595.10
9 Motors (16)	281.70	-1.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	409.50
10 Other Industrial Materials (23)	1349.34	-2.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP (186)	1063.08	-1.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers (21)	1111.34	-0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing (21)	954.85	-1.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing (16)	[illegible]	-1.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health and Household (12)	1879.76	-1.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Leisure (30)	1319.43	-0.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging & Paper (17)	551.27	-1.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Publishing & Printing (19)	3293.70	-1.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores (34)	763.48	-2.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles (16)	500.82	-1.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS (92)	894.51	-1.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Agencies (19)	1058.54	-1.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (22)	1062.86	-1.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates (11)	1240.26	-1.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Shipping and Transport (12)	1920.92	-0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Telephone Networks (2)	964.95	-1.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous (26)	1216.83	-0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (488)	964.00	-1.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (12)	1716.77	-1.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	1028.15	-1.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (125)	688.30	-1.1	–	[illegible]	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (8)	672.49	-1.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (8)	976.54	-0.8	–	[illegible]	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	538.61	-0.4	–	[illegible]	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (7)	899.30	-1.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (11)	334.80	-0.6	–	[illegible]	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (51)	1211.98	-0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (31)	363.71	-1.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (78)	[illegible]	[illegible]	–	[illegible]	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
81 Mining Finance (2)	562.98	-1.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
91 Overseas Traders (8)	1511.74	-0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (711)	943.53	-1.1	–	4.46	–	25.42	954.21	956.44	954.27	1199.58
	Index No.	Day's Change	Day's High	Day's Low	Oct 11	Oct 10	Oct 7	Oct 6	Oct 5	Year ago
FT-SE 100 SHARE INDEX ♦	1814.3	-24.8	1831.2	1821.8	1838.3	1844.1	1844.7	1838.9	1826.3	2322.9

FIXED INTEREST

PRICE INDICES	Wed Oct 12	Day's change %	Tue Oct 11	xd adj. today	xd adj. 1988 to date
British Government					
1 5 years	119.72	+0.01	119.71	–	9.69
2 5-15 years	137.76	-0.11	137.92	–	10.47
3 Over 15 years	148.77	-0.24	149.46	0.35	11.50
4 Irredeemables	172.13	-0.65	173.26	–	8.84
5 All stocks	134.59	-0.10	134.77	0.05	10.41
Index-Linked					
6 5 years	128.43	+0.13	128.66	–	1.81
7 Over 5 years	123.38	-0.18	123.60	–	2.68
8 All stocks	123.64	-0.15	123.83	–	2.59
9 Debentures & Loans	118.00	+0.05	117.93	–	8.46
10 Preference	88.31	-0.06	88.36	–	4.98

AVERAGE GROSS REDEMPTION YIELDS		Wed Oct 12	Tue Oct 11	Year ago (approx.)
British Government				
1 Low Coupons	5 years	9.59	9.58	9.63
2	15 years	9.24	9.21	9.92
3	25 years	8.96	8.92	9.76
4 Medium Coupons	5 years	9.79	9.76	10.33
5	15 years	9.46	9.43	10.17
6	25 years	9.13	9.07	9.94
7 High Coupons	5 years	10.07	10.07	10.40
8	15 years	9.50	9.48	10.34
9	25 years	9.22	9.17	10.00
10 Irredeemables		8.94	8.87	9.95
Index-Linked				
11 Inflation rate 5%	5yrs	3.17	3.22	3.63
12 Inflation rate 5%	Over 5 yrs	3.82	3.81	4.34
13 Inflation rate 10%	5yrs	2.11	2.16	3.72
14 Inflation rate 10%	Over 5 yrs	3.66	3.64	4.56
15 Debs & Loans	5 years	11.79	11.79	11.85
16	15 years	11.13	11.14	11.54
17	25 years	10.75	10.76	11.33
18 Preference		10.19	10.19	10.99

♦Opening index 1831.2; 10 am 1829.1; 11 am 1829.5; Noon 1828.7; 1 pm 1826.9; 2 pm 1825.4; 3 pm 1819.1; 3.30 pm 1819.2; 4 pm 1817.3
† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	11	77	24
Corporations, Dominion and Foreign Bonds	7	14	28
Industrials	220	602	774
Financial and Properties	82	259	323
Oils	10	52	43
Plantations	0	1	12
Mines	18	77	97
Others	23	138	88
Totals	371	1,220	1,389

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1988 High	1988 Low	Stock	Closing Price	+or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price £	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

TRADITIONAL OPTIONS

- First Dealings July 26
- Last Dealings Aug 5
- Last Declarations Oct 27
- For settlement Nov 7

For rate indications see end of London Share Service

Calls were taken in Moundleigh, Cannon St, MB Group, Caledonian Burford, Trusthouse Forte, LASMO, Cowie T, Rothmans, Hughs Foods, Kall Energy, Carlon Beach, Western Motor, Ryan Int, Central & Sherwood, Brooks Tool, Oliver Res. Puts in Sears. PutCalls in Lon Int Grp, Carlon Beach.

LONDON TRADED OPTIONS

Option	Calls	Puts
Allied Lyons (*471)	[illegible]	[illegible]
Brit. Airways (*161)	[illegible]	[illegible]
Brit. & Comm. (*217)	[illegible]	[illegible]
B.P. (*235)	[illegible]	[illegible]
Cable & Wire (*394)	[illegible]	[illegible]
Cons. Gold (*1252)	[illegible]	[illegible]
Courtaulds (*293)	[illegible]	[illegible]
Com. Union (*251)	[illegible]	[illegible]
G.E.C. (*159)	[illegible]	[illegible]
G.K.N. (*318)	[illegible]	[illegible]
Grand Met. (*446)	[illegible]	[illegible]
I.C.I. (*1010)	[illegible]	[illegible]
Jaguar (*256)	[illegible]	[illegible]
Land Securities (*571)	[illegible]	[illegible]
Marks & Spencer (*167)	[illegible]	[illegible]
Britoil	[illegible]	[illegible]
Rolls-Royce (*136)	[illegible]	[illegible]
STC (*200)	[illegible]	[illegible]
Sainsbury	[illegible]	[illegible]
Shell Trans. (*963)	[illegible]	[illegible]
Storehouse (*186)	[illegible]	[illegible]
Trafalgar House (*314)	[illegible]	[illegible]
T.S.B. (*107)	[illegible]	[illegible]
Utd. Biscuits (*281)	[illegible]	[illegible]
Ultramar (*259)	[illegible]	[illegible]
Woolworth (*253)	[illegible]	[illegible]
Ladbroke	[illegible]	[illegible]
Brit Aero (*476)	[illegible]	[illegible]
BAA (*277)	[illegible]	[illegible]
BAT Inds (*455)	[illegible]	[illegible]
Brit. Telecom (*241)	[illegible]	[illegible]
Cadbury Schweppes (*370)	[illegible]	[illegible]
Guinness (*320)	[illegible]	[illegible]
LASMO (*512)	[illegible]	[illegible]
P. & O. (*573)	[illegible]	[illegible]
Pilkington (*216)	[illegible]	[illegible]
Plessey (*161)	[illegible]	[illegible]
Prudential (*152)	[illegible]	[illegible]
Racal (*312)	[illegible]	[illegible]
R.T.Z. (*424)	[illegible]	[illegible]
Vaal Reefs	[illegible]	[illegible]
Amstrad (*203)	[illegible]	[illegible]
Barclays (*429)	[illegible]	[illegible]
Blue Circle (*457)	[illegible]	[illegible]
Dixons (*147)	[illegible]	[illegible]
Glaxo (*1066)	[illegible]	[illegible]
Hawker Sidd. (*533)	[illegible]	[illegible]
Hillsdown (*276)	[illegible]	[illegible]
Lonrho (*340)	[illegible]	[illegible]
Midland Bk (*419)	[illegible]	[illegible]
Sears (*139)	[illegible]	[illegible]
Trusthouse Forte (*256)	[illegible]	[illegible]
Thorn EMI (*646)	[illegible]	[illegible]
Wellcome (*503)	[illegible]	[illegible]
Boots (*221)	[illegible]	[illegible]
British Gas (*171)	[illegible]	[illegible]
RHM (*373)	[illegible]	[illegible]
Beecham (*463)	[illegible]	[illegible]
Unilever (*461)	[illegible]	[illegible]
BTR (*292)	[illegible]	[illegible]
Hanson (*148)	[illegible]	[illegible]
Tesco (*141)	[illegible]	[illegible]
Enterprise Oil (*603)	[illegible]	[illegible]
Conv. 9½% 2005 (*102)	[illegible]	[illegible]
Tr. 12% 1995 (*109)	[illegible]	[illegible]
FT-SE Index (*1819)	[illegible]	[illegible]

October 12 Total Contracts 32,060 Calls 22,104 Puts 9,956
FT-SE Index Calls 1436 Puts 2259
*Underlying security price.

UK COMPANY NEWS

Leasing side boosts Avis Europe

By Andrew Hill

THE EXPANSION of its leasing activities in the second half of 1987 helped boost profits at Avis Europe, car leasing and rental group, from a restated £29.5m to £35m before tax in the half-year to August 31.

Leasing profits rose 40 per cent from £5.25m to £7.34m. Revenue more than trebled to £70.4m (£23.1m), with the lower margins attributed to continuing integration of new acquisitions.

Since February, Avis's owned and managed fleet of vehicles has risen from 79,000 to 87,000, of which 50,000 are in the UK. The company's long-term plan is for leasing and rental business to generate an equal proportion of group profits.

Mr Alun Cathcart, chairman, said yesterday: "Our mission now is to dominate the full service leasing market in Europe, achieving the same position we have in car rental. I think we can continue to grow our leasing business very dramatically over the next five years."

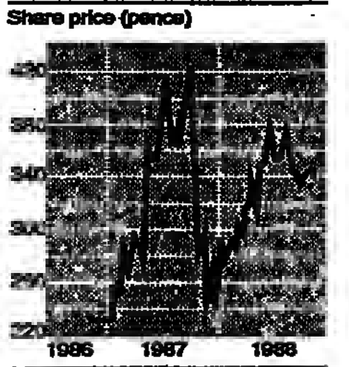
The group is particularly interested in expanding its activities in West Germany, which Mr Cathcart described as "one of the greatest areas for improvement and development".

In the first half, vehicle rental profits rose to £24.7m (£21.7m) on revenue of £146m (£137m), from an average of 45,060 (37,000) rental cars. Vehicle distribution made £3.02m (£2.66m) on sales of £90.6m (£78.8m).

Mr Cathcart said the weak US dollar led to a 10 per cent drop in first-half business from US visitors to Europe, who normally account for 7 per cent of annual rental revenue. However, he said a marketing programme had boosted southern European leisure rentals and northern European commercial business, partially offsetting the slump in transatlantic custom.

Avis Europe

Share price (pence)



Group turnover was up 29 per cent to £307m (£239m) and earnings per share advanced from 12.1p to 13.5p.

The group declared an interim dividend of 4p (3.8p).

● COMMENT

The quality of Avis's business and the inexorable spread of its valuable brand-name cannot be denied. The group opened 66 new outlets during the period, and the promised expansion of the leasing business will provide increased stability through longer term corporate contracts. There are also plans for further extension of Cellrent, the cellular telephone rental arm, which would add value to core rental and leasing operations as well as generating business in its own right. Despite these positive signs, Avis Europe's shares look expensive. Yesterday they fell 8p to 339p, but forecast profits of £68m before tax in the full year still put them on a prospective multiple approaching 13, a premium to agencies (the sector where the group is listed), motor groups, competitors like T Cowie, and — stretching a point — British Airways, which also relies on recurring commercial custom.

Weak mortgage market hits Abbey Life

By Nick Bunker

ABBEY LIFE, the UK's second largest unit-linked life insurer, has seen sales growth slacken since the summer, because the slow-down in the housing market has held back mortgage-related new life business. In addition unit trust sales have remained very low.

However Mr Michael Hepher, chairman, said yesterday that the group was still confident about its prospects and was raising its interim dividend 20 per cent to 3.6p.

The shares weakened 10p to close at 295.5p, against a background of investor anxiety about the impact on the whole sector of weak mortgage-related sales and Inland Revenue plans to raise its tax take from the industry.

Abbey's new annual premium business grew 34 per cent to £57.2m in the six months to June 30, driven by strong sales of pensions, Mortgage Master life policies and Living Assurance.

Single premium new business fell more than 40 per cent to £67.6m in the same period, reflecting the negative effect of last October's stock market crash on demand for equity-linked lump-sum investments.

Mr David Baggaley, finance director, said yesterday that Abbey was expecting "reasonable growth in the second half.

As the mortgage market weakened, Abbey was redirecting its sales associates to focus on pensions, Living Assurance and CoverMaster.

● COMMENT

Speculative hysteria, inspired by rumour that a European bid for Abbey was imminent, drove the group's share price above 340p in midsummer. Now the market appears to be moving to the opposite extreme, marking the shares down on hardly surprising news of slackening new business growth. Investors' current difficulty in appraising life shares is that so many imponderables have gathered about the sector. Fears that the Revenue could be looking for an extra £3bn in tax may be overdone, but life assurance taxation is so arcane that the stock market can hardly reach an informed view by itself about the potential impact of the Revenue's proposals. And, as yet, it is unclear whether the industry's sales of new-style personal pensions will make up for a downturn in mortgage-related new business. With luck, some hard data on both subjects may emerge from Legal & General's third-quarter new business figures, expected today, and from the Association of British Insurers' soon-to-be-published document responding to the Revenue's life taxation discussion paper.

Aitken sells unit trust side

By Andrew Hill

AITKEN HUME, the financial services group currently undergoing painful restructuring, has sold its unit trust operations to Aberdeen Trust Holdings, a private fund management company, for £5m in cash.

Aitken wants to concentrate on the development of its banking and portfolio management activities. The unit trust side, Sentinel Investment Managers and Sentinel Funds Management, had been up for sale since March.

Mr Emmanuel Olympitis, chief executive, said Aitken expected to sell Sentinel Life, its life insurance subsidiary, by the end of the financial year to March 1989, at a price near to its appraisal value of £13.8m.

The unit trust companies manage about £145m of assets, £65m of which belong to Sentinel Life and are managed under a 12-month contract. Buyers of the life company would have to give a further six months notice if they wished to recover the management of these assets from Aberdeen Trust.

Yesterday's acquisition will increase Aberdeen Trust's funds under management from £155m to £300m.

Suitors up stakes at Travis & Arnold

By Philip Coggan

THE BATTLE for control of builders' merchant Travis & Arnold remained unresolved after the rival bidding parties both announced increased stakes yesterday.

Sandell Perkins, which has the agreement of the Travis board for its all-share offer, announced that at the first closing date it had received total acceptances of 48.2 per cent, and valid acceptances of 47.6 per cent, of the Travis equity.

However, Meyer International said that it had acquired a further 5.7 per cent of Travis increasing its stake to 35.2 per cent. Meyer has made a 550p per share cash offer, with a convertible preference share alternative.

The twin announcements coincided with a sharp fall in Travis's share price to 495p, down 65p.

Sandell's shares rose 4p to 265p, valuing its eight for five offer at 441p, including a special dividend of 18p. Meyer's shares fell 4p to 385p.

Meyer's offer hits its first closing date on Saturday and it issued a statement yesterday urging those who accepted the Sandell offer to withdraw their acceptances.

It received approval for its offer at a special extraordinary general meeting yesterday and Mr Oscar de Ville, chairman, said that the group would continue to buy Travis shares.

Mr Tim Perkins, Sandell Perkins chairman, said that "to have gained acceptances in excess of 48 per cent by the first closing date is an achievement which clearly vindicates the board of Travis & Arnold."

However, Meyer pointed out that directors, families and associates constituted 29.2 per cent of the Sandell acceptances.

Analysts said that the odds still favoured a Sandell victory.

Pleasurama circular

Pleasurama has sent another circular urging shareholders to reject Mecca Leisure's offer.

Rush & Tompkins shares rise as Higgs & Hill reveals stake

By Nikki Tait

SHARES IN Rush & Tompkins, property developer and contractor, jumped 26p to 327p yesterday on news that Higgs & Hill, building and property group, has acquired a 14.9 per cent stake.

The shares had already gained 26p on Tuesday, on news that OVS Investment, the Australian company controlled by Mr Dick Pratt, had sold a 9.9 per cent stake. Yesterday's announcement from Higgs & Hill confirmed that it had picked up this interest — which leaves OVS holding a remaining 2.39 per cent — but the company was unable to say where the remaining shares had come from.

Higgs & Hill said it viewed the purchase "as a good opportunity to invest in an established company operating in similar property and construction markets". It added that it had "no present intention" of making a full bid for Rush & Tompkins.

The two companies have made initial telephone contact since the announcement, but beyond noting the contents of Higgs & Hill's statement, Rush said it had little to add. Family shareholders speak for just under one-fifth of the equity, and Govett Strategic, investment trust, last had a declared shareholding of about 18 per cent.

Gold Fields calls for speedy decision on bid reference

By Kenneth Gooding, Mining Correspondent

MR RUDOLPH Agnew, chairman of Consolidated Gold Fields, yesterday urged the UK government to reach a speedy decision on whether the hostile £2.9bn bid from Minorco, South African controlled investment company, should be referred to the Monopolies Commission.

"Time is of the essence," he declared. "There is no point in looking at the issues after the event. The real pressure on us now is whether the authorities will do the right thing in the right time".

Mr Agnew acknowledged that the timing of the bid, when the UK Parliament was in recess and the party conference season in full flood, had not helped Gold Fields' cause.

However, he suggested that the company had established since the bid was made three weeks ago three major areas of concern: the possible leak of information that the offer was to be made; that South African control might be damaging to Gold Fields' subsidiaries and that the absorption of Gold Fields by Minorco would weaken competition in the gold market.

"Knowledgeable people are listening to our arguments," said Mr Agnew. "These are serious issues and we have established them as such."

Meanwhile, Minorco yesterday said it believed the allegations contained in the law suit filed by Gold Fields and Newmont Mining in New York late on Tuesday to be "totally without merit."

The suit, which also names Minorco's two major South African shareholders, Anglo American Corporation and De Beers, charges that Minorco's bid violates Federal securities and anti-trust laws. Minorco said it was reviewing the complaint "But we are confident it is a cosmetic one".

Meanwhile, Minorco has been buying Gold Fields shares in the market where they have been languishing below the bid price. Minorco could lift its stake in Gold Fields from 28.9 per cent to 29.99 per cent under the terms of the Takeover Code.

London & Assocd

London & Associated Investment Trust, property and investment group, announced improved pre-tax profits of £387,000 in the six months to June 30 against £371,000 previously.

An interim dividend of 0.15p (0.125p adjusted) is declared, payable from earnings per 10p share of 0.71p (0.7p).

Revenue for the period was £713,000 (£698,000).

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Abbey Life	int	3.6	-	3	-	10.25
Alba	fin	2.85	Dec 15	-	4.35	-
Avis Europe	int	4†	Jan 9	3.8	-	9
Britannia Sec	fin	1.35†	-	1.06	2.25	1.8
Brooks Service	int	1.6	Nov 18	1.4	-	4.2
Castle Comms §	fin	4.2	Dec 2	4	7.2	4
Johnston Group	int	3	Dec 14	3	-	10
Kingston Oil/Gas	fin	0.625	Dec 5	-	1	-
Lawrence (W)	int	2	Jan 3	1.28	-	4.78
London & Assoc	int	0.15	-	0.125*	-	0.282*
Pochin's	fin	15	-	12	19	16
Sinclair (Wm) §	fin	6.5	-	4.167*	8.5	6.667*
Tay Homes §	fin	5.93	Nov 23	4.43	8	6.2
Tudor §	int	1.5	Oct 14	1.5	-	5
UEI	int	2.6†	Dec 1	2.3	-	7

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ‡USM stock. §Unquoted stock. ¶Third market.

Approach to troubled Vivat lifts share price

By Alice Rawsthorn

VIVAT HOLDINGS, the troubled leisurewear group which is best known for Lee Cooper jeans, announced yesterday that it has received an approach which may lead to a takeover bid.

The company has been shrouded by bid speculation since August when two directors – Lord Marsh, the former chairman of British Rail who had become Vivat's non-executive chairman, and Mr Max de Boysson, the representative of the interests of Compagnie de Navigation Mixte, which holds 25 per cent of Vivat's equity - resigned after a boardroom row.

Mr de Boysson's departure raised a questionmark over Vivat's relationship with Compagnie de Navigation Mixte. Pepe, one of the most successful of the emerging UK leisurewear companies, has been mooted as a possible predator for Vivat, as have a number of French textile groups.

Vivat's shares rose by 23p to 105p yesterday on bid speculation. The company, which owns the Jean Jeanie chain of leisurewear shops in the UK as well as Lee Cooper jeans, is now valued at £48m.

Vivat has been in difficulty for several years because of the increasingly competitive state of the European jeans market.

Three years ago it decided to withdraw from manufacturing in Europe in order to cut costs and become more competitive. It has since closed factories in France, West Germany and the UK. The closure of its remaining plant in France will be completed early next year.

Vivat made an extraordinary provision of £5.3m to cover the cost of the closures in its 1987 financial results. The company has diversified in recent years to reduce its reliance on jeans.

But its problems with Jean Jeanie contributed to a fall in operating profits from £9.7m to £5.5m last year. After the £5.3m provision, it incurred a pre-tax loss of £3.2m on sales of £146m.

Vivat said yesterday that negotiations are at a "very preliminary" stage and that an announcement will be made "as soon as is practicably possible".

Britannia Security ahead 85% to £10m

By Clare Pearson

BRITANNIA SECURITY Group, acquisitive business services and alarm installation company, announced pre-tax profits 85 per cent higher at £10.04m in the year to end-June. Earnings per share moved ahead by just 5 per cent to 14.28p.

During the year, the company suffered a shortfall against budget of nearly £1.3m at the UK records management business, the managing director of which was replaced earlier this year. Britannia attributed problems here to "the much more competitive environment."

Additionally, there were timing difficulties in the process of transforming Actron, the electronic article surveillance concern acquired in 1987, from a company distributing US products to manufacturing its own range in Europe.

Mr Anthony Record, chairman, said that with tighter controls instituted in UK records management, and with strong order books at Actron, he believed Britannia was now set for a period of strong growth in 1989 and beyond.

Group turnover rose to £61.72m (£24.93m), while interest charges reached £1.64m (£649,000). A proposed final dividand of 1.35p makes 2.25p (1.8p) for the year.

● COMMENT

To the outsider, it may seem difficult to go far wrong in the business of storing documents. But Britannia has proved it can be done: an unfortunate development considering the aim of getting into data storage was to create a solid, cash-generative leg to the business. On the other hand, the episode may have proved salutary for the company, whose concern for management controls may well have been eclipsed by its hectic acquisition programme over the last few years. There is at least plenty of scope for recovery this year, and analysts expect at least £1.5m in profits from UK document storage; with £2m coming through from the transformed Actron, pre-tax profits of £13.5m, and perhaps earnings of 18p, are in sight. The prospective p/e of around 10 is not demanding – especially as, with further rationalisation in the security industry expected, a bid is entirely possible.

Racal Telecom rating banks on robust growth

Philip Coggan and Hugo Dixon on the £1.7bn sale

THE FLOTATION of Racal Telecom, the mobile communications subsidiary of Racal Electronics, is not only the largest new issue since last October's Crash, it is also one of the most remarkable offers-for-sale in many years.

Rarely can a flotation have been preceded by so much publicity and debate. And rarely can a new issue have been offered on a prospective p/e as high as 30.5 – about three times the market average.

Even last year, with the bull market at its peak, stocks like Sock Shop and Tie Rack were only offered on prospective p/e ratios in the twenties.

With the market still in what many regard as a bear phase – the FT-SE 100 Index fell 24 points yesterday – the Racal Telecom pricing of 170p per share, and a £1.7bn total valuation, would seem a bold move.

But Racal says that such a high rating is justified because of the "outstanding growth potential" of Racal Telecom, which consists largely of the Vodafone cellular telephone network. Citicorp Scrimgeour Vickers has produced forecasts showing operating profits leaping from £80m in the current year to £139m next year and £202m the year after.

These forecasts, and the company's own confidence in its future profitability, are based on three main assumptions:

● That the number of carphone or cellular subscribers in the UK grows at about 250,000 a year – the rate it has been growing on an annualised basis for the past few months.

Racal dismisses suggestions that the market could soon

Gerry Whent: sees outstanding growth potential

become saturated, pointing out that this has not happened in Scandinavia which began its cellular service three years before the UK.

Mr Gerry Whent, Racal Telecom's chief executive, discounts the possibility that a new generation of cheap cordless telephones, being introduced in the UK next year, could put a cap on Vodafone's growth.

● Secondly, that Vodafone can maintain its share of just over half the cellular market. That might be threatened if a new competitor were allowed. Although Mercury Communications has made no secret of its ambitions, the Office of Telecommunications has also made clear that no new licenses will be granted at least until 1991.

● Thirdly, that Vodafone will continue to receive about £850 a year per subscriber. This assumption would be vulnerable if any of three things happened; new subscribers spent less than existing ones; Vodafone was forced to cut its prices in the face of competition; or Oftel told the company to cut its prices because it was making excessive profits.

Investors have certainly had plenty of opportunity to debate Vodafone's prospects. Racal first announced its intention to float off the business in April in what was then seen as a move designed to head off a bid from Cable & Wireless, the telecommunications group.

The flotation plans caused some misgivings amongst institutional investors, who were worried about the potential dilution of their holdings if the offer was skewed too heavily towards overseas investors.

Eventually, the structure of the issue was devised to meet most of the UK institutional objections. Only a quarter of the offer is being sold overseas, with existing Racal shareholders having first claim on the rest. That may, in itself, boost the prospects of the issue's success.

Demand from US investors will probably be more than enough to cope with the limited size of the offering. And it will look extremely odd if the UK institutions, having argued so hard for their pre-emption rights, then boycott the issue.

The early publicity may also help the offer. By allowing valuations of £2bn to circulate in the markets and by publishing a pricing range of 155p to 185p, the company has ended up with a price which it can claim is on the modest side.

However, the memory of the BP issue, almost exactly one year ago, must cast a slight pall over the issue.

Berisford in disposal of Secondary Metals side

S & W BERISFORD, food, soft commodity, property and financial services group, is taking a further step in its objective of disposing of non-core activities.

The group is selling its Secondary Metals processing business, consisting of eight aluminium manufacturing and trading companies, simultaneously with a major element of its metal trading activities, to an unnamed private group.

The asset value of the disposal totals about £5m.

Berisford said yesterday that the non-ferrous and precious metals trading activities of J H Rayner (Mincing Lane) would continue.

In addition, Berisford confirmed the sale of Metprep Industrial Products, speciality chemicals company making paint strippers, rust removers and other cleaning materials, to Brent Chemicals for £2.1m.

Berisford will also raise another £550,000 from the disposal of Power Diesels, an agent for Perkins Engine Power Centres for part of southern England, to a subsidiary of Blackwood Hodge.

Pochin's growth

Pochin's lifted pre-tax profits from £1.42m to £1.78m, in the year to May 31 1988. Turnover rose to £28.57m (£26.68m), and after tax of £485,702 (£376,806), earnings per share increased to 124.28p (99.88p). A recommended final dividend of 15p makes a total of 19p (16p) for the year.

Castle Comms improves 43% to over £1m

A 43 per cent improvement in pre-tax profits was reported by Castle Communications, USM-quoted record and video company, for the year to June 30.

On turnover ahead 50 per cent to £9.74m (£6.48m) the pre-tax result came out at £1.05m against £735,000 after other income of £75,000 (nil) and higher interest charges of £132,000 (£50,000).

A final dividend of 4.2p (4p) brings the total for the year to 7.2p (4p). Earnings per 5p share worked through at 18.5p (15.7p) after tax of £402,000 (£293,000) and £5,000 minorities (£1,000 credit).

Directors said the new financial year had started well, with market conditions looking favourable for the continuing expansion of the group.

British Shoe makes £58m

INTEREST RECEIVED of £12.4m, as against £2.7m paid last time, enabled British Shoe Corporation Holdings, wholly-owned footwear and department store subsidiary of Sears, to report a £3.3m rise in pre-tax profits to £57.8m in the six months to July 31.

While trading profits were up at £51.4m (£49.8m), turnover fell to £464.6m (£511.5m). The figures for 1987 include turnover of £67m and a trading loss of £800,000 from Lewis's department store, since sold on February 1 1988.

Other income and exceptional items slipped to £4m (£7.4m) and tax rose to £19m (£16.5m). The disposal in July of the shoe manufacturing and repair businesses created a net loss of £5.6m. It is intended that this will be treated as an extraordinary item in the full year's results.

COMPANY NEWS IN BRIEF

BAILLIE GIFFORD TECHNOLOGY, investment trust, made a pre-tax profit of £7,640, in the half-year to August 31, against a £21,783 deficit. The directors warned that because of the incidence of income receipts, a loss was expected for the year. Net asset value at the end of the period was 100.2p (102.2p) and diluted 100.1p (101.8p). Gross investment income was £133,291 (£101,342). Earnings 0.3p (0.22p loss).

LONDON AND ST LAWRENCE Investment Company: net asset value stood at 102.25p at the end of the year to August 31, against 129.44p. Gross income £687,648 (£507,477). Net revenue was £489,000 (£349,000). Earnings per 5p share 2.55p (1.805p). There was a special dividend of 0.6p, making 2.16p (1.46p).

ACSIS GROUP, USM-quoted marketing group, has acquired Guardshelf Number 1 for £125,000 cash and Leisure and Hotel Appointments for £43,250 cash. Guardshelf, which has not traded, represents certain of the assets of the Davis Advertising Service consisting of electronic map display units and associated rental contracts. LHA specialises in executive search for the leisure, hotel, catering and allied industries.

AUSTIN REED has acquired Wright and Peel (Leeford), rainwear manufacturer, for £800,000 payable in ordinary non-voting shares. Wright and Peel exports 90 per cent of its output. The rest is sold mainly in the West End of London.

BLACKWOOOD HODGE is placing 15m 9 per cent cumulative preference shares of £1 each 2008.

CHARTERHALL: At the close of the non-underwritten rights issue 91.38 per cent was subscribed. The remainder was sold in the market. Some £9m has been raised.

DAUPHIN is undertaking a joint venture with deSede Projects of Switzerland, to market in the UK a range of office seating and related products.

HARGREAVES GROUP is proposing to repay the entire £2m nominal 10.5 per cent debenture stock 1992/97 at £104.5 cash for every £100 nominal. Hargreaves became a subsidiary of Coalite in 1986 and the nominal amount of stock is not significant in context of Coalite's net assets. Under a proposed reorganisation, Hargreaves will be wound up.

Twists in the tale of Carless' bid for Ryan

Nikki Tait on the scepticism over the plans for 'a unique British energy company'

A curious business, was the view of one large institutional investor, when considering the proposed merger between oil independent Carless and coal group Ryan International some weeks ago.

As the Friday egm approaches, at which Carless shareholders must decide whether to back the proposed £100m acquisition of Ryan, the situation appears to twist and twist again – in general, to Carless' discomfort.

The basic issue is simple enough.

Carless argues that the deal with Ryan, where operations range from opencast mining to coal recovery, would create "a unique British energy company".

Both companies maintain that when the electricity industry is privatised and the coal sector is liberalised, there will be substantial opportunities for private coal operators. Moreover, while Ryan currently has gearing of some 100 per cent, Carless' financial strength would allow the merged group to seize these openings.

The proposed merger is the latest in a number of moves made by Mr Ian Clubb since he became chief executive of Carless. Others recently have concentrated on modest expansion of the downstream activities – into speciality chemicals, lubricants and the like.

Nevertheless, a few eyebrows were raised in the City.

For a start, Ryan is not the best-followed company. It was originally a small Welsh coal recovery group, which went into serious losses in the early 1980s before being saved from receivership by a group of investors led by Mr Crispian Hotson. Mr Hotson, a South African who had previously been running a small Kentucky coal company, became managing director and a £4.76m refinancing package took place.

Since then, there has been considerable reorganisation – acquisitions and disposals, including the £27m purchase of Derek Crouch's opencast coal-mining and housebuilding operations. Profits, after a reduction in the depreciation charge to £5.3m, reached £10m last year against £8.84m in 1986. Turnover was £96.3m. In the first half of 1988, Ryan's pre-tax figure slipped from £4.1m to £3.2m.

While no-one is critical of Ryan directly, there is a distinct perception that prospects for private coal operators are difficult to assess and, if they are so bright, there may be heavyweights like Taylor Woodrow, keen to cash in.

Moreover, Ryan is seen as Mr Hotson's creature. "It's not that Ryan's a bad business," says one analyst, "but it's a personal business. Either you back him or you don't."

The second note of dissent hinges on Carless itself, where its declared policy of spanning both downstream and upstream activities has not made life easy for analysts of late. On the one hand, some company-watchers are not entirely unsympathetic to Mr Clubb's arguments.

However, there is a strong belief that a successful deal would push the way in which Carless shares are rated much further away from that of an exploration company – where assets are the key factor – and put them instead on an earnings basis.

Moreover, the earnings enhancement which Ryan would undoubtedly provide – one analyst suggests earnings in 1988/89 could rise from just over 3p a share without Ryan to over 5p a share with – is unlikely to compensate for this change of basis. That, in turn, could bring significant share price weakness.

What gives the situation its added twist is the implication that the Ryan deal reflects on Carless' own potential as a bid target. This, of course, is hotly denied by the oil company.

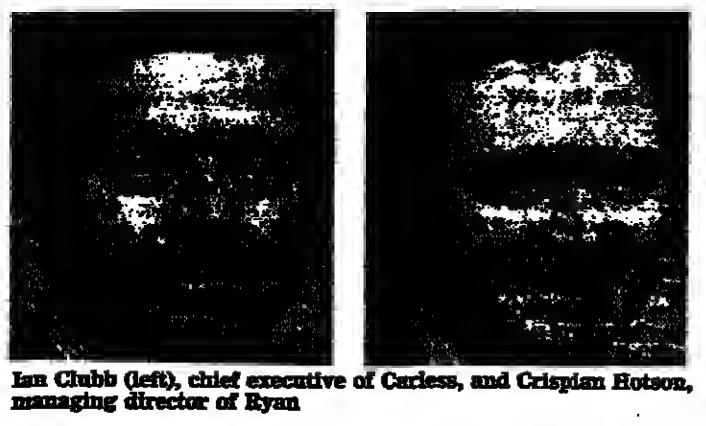
Nonetheless, it has certainly been viewed as a factor in the rather curious behaviour of London Merchant Securities, the investment company which holds 27.2 per cent of Carless and is its largest shareholder. LMS had built its stake over the years by selling Carless, in succession, its US oil and gas assets and its holdings in Winterbottom Energy Trust and Century Power & Light. However, it is also no secret that LMS has recently been looking to exit – although obviously subject to the right price.

Quite why LMS gave its backing in the initial merger announcement remains something of a mystery. It does, after all, have two board seats at Carless, and Mr Robert Spier, LMS finance director, was at the meeting which approved the deal. The rumoured story is that it was Lord Rayne himself, chairman of LMS, who eventually over-ruled the initial decision, which was taken without full consideration of the implications for the Carless share price.

The behaviour of Kelt Energy, a smaller oil independent controlled by French businessman Mr Hubert Perrodo and with a market capitalisation of £100m, is so far even less clear. Its announcement on Monday that it was considering a full bid attracted growing scepticism as the week wore on. Analysts remain dubious about how a leveraged bid, which Kelt has said it would be, would work. Any subsequent break-up would face the problem that the downstream activities are fairly diverse, with the upstream ones (which Kelt presumably would wish to keep) carrying the biggest premium.

That said, Kelt has at least kept the pot boiling with yesterday's purchase of 5.3m shares from institutional holder TR Industrial & General. The LMS camp appears to be adding Kelt's new stake into its estimated tally which, assuming that Rawda Investments stays firm and including a couple of unnamed institutions, it reckons now tops 40 per cent.

Who knows, there may be more surprises yet. But if Friday's meeting proceeds as planned, Carless' description of a "photo-finish" looks all too true. And "what happens next?" will be a good question.



Ian Clubb (left), chief executive of Carless, and Crispian Hotson, managing director of Ryan

Homes lift Tay profits 70% to over £5m

A RISE in the number of homes sold, from 541 to 710, resulted in pre-tax profits up 70 per cent to £5.15m at Tay Homes, Leeds-based housebuilder, in the year to June 30.

Turnover rose by 59 per cent from £22.28m to £35.43m with most of the sales volume coming from the group's core regions of Yorkshire and Scotland, mainly in the second half. These areas continued to thrive, Mr Trevor Spencer, chairman, reported.

The company is dealt on the USM, but plans were in hand for a full listing.

Earnings per share improved to 47.2p (34.8p) and a final dividend of 5.93p (4.43p) is recommended for an 8p (6.2p) total. The directors are proposing a two-for-one scrip issue and to raise the authorised capital from £2.36m to £7.86m.

Looking ahead, Mr Spencer said that since the year end Yorkshire in particular had shown a significant uplift in selling prices. The timing of the rights issue in June 1987 had left the group ideally placed to use the funds to invest both in Yorkshire and other areas for future growth. The land bank had been increased to over 2,500 units.

In the current year, with the aim of enlarging geographical coverage for long-term regional growth, a new office to cover the Midlands and northern Home Counties had been established in Leighton Buzzard. The new Plymouth office for the south west was now well established and had made its first nominal contribution to profits.

All-round organic growth boosts UEI to £14m in first half

By Clare Pearson

UEI, high technology electronics and engineering group, yesterday announced pre-tax profits up 26 per cent at £14m, and earnings per share 22 per cent higher at 12.8p, in the half-year to July 31.

Mr Peter Michael, chairman, said the advance was achieved through organic growth, spread fairly evenly across the four divisions of UEI: sound and vision; text and graphics; advanced engineering; and scientific and medical.

Within this last division, he expected significant research and marketing benefits to follow from the $20m acquisition in August of The Nucleus, a US nuclear defection equipment company.

There were no acquisitions during the first half.

Spending on research and development during the period remained substantial at £8m it said, and was up 14 per cent on the comparable period last year.

The company continued to generate cash strongly and borrowings fell from £6.6m at the last year-end to £1m.

Within the sound and vision division, initial reaction to new sound-editing products of the SSL subsidiary had been highly favourable, and volume deliveries were expected to commence next year.

This division had also recently benefited from a £11m two-year order from the Indonesian state broadcasting company for the design and installation of a comprehensive regional facility.

The text and graphics division was boosted by increased demand for the Graphic Paintbox, a sophisticated tool for the printing industry.

Within engineering, the period had seen the successful launch of the Sierra Sapphire by Ford, one of the main customers of UEI's Cosworth subsidiary which makes racing and high performance car engines.

Turnover rose from £70.67m to £77.45m, but was 17 per cent up taking into account a disposal. An interim dividend of 2.8p (2.3p) is declared.

● COMMENT

These results showed UEI keeping up the good work of mixing the various technological skills within the overall group to produce new products that push back the frontiers in its glamorous markets: broadcasting, publishing, and high-performance car engines. With the acquisition of the US-based The Nucleus, which fits neatly with its similar European subsidiary Link Analysis, similar synergistic opportunities should be seized in its scientific instruments division. Elsewhere, next year should see a strong performance from SSL – the only subsidiary not firing on all cylinders during this period because of development costs of its new products. With no reason to expect a faltering in its five-year-old 20 per cent-plus growth rate, a premium p/e ratio of over 14, assuming pre-tax profits of about £32m this year, is entirely justified.

William Sinclair expansion

A 50 per cent increase to 8.5p in the dividend is recommended by William Sinclair Holdings for the year ended June 30 1988. The final is 6.5p, and there will also be another scrip issue, this time on a one-for-one basis.

The group makes horticultural products. It has a USM quote but plans to apply for a full listing in mid-November.

Turnover for the year expanded by 40 per cent, from £15.72m to £21.95m. Pre-tax profit improved 34 per cent, from £1.89m to £2.53m, after interest charges down to £132,000 (£351,000). Earnings worked through at 22.5p (17p).

Once again the compost and fertiliser sector of the garden leisure market expanded and the industry achieved record sales. Garotta Products was integrated into the J Arthur Bower business at Lincoln and benefits of the rationalisation were included.

In garden sundry activities Fyba Pot and Inside/Outside achieved satisfactory sales volume increases. Exports proved difficult because of the high value of sterling.

In the current year, the early months had seen sales in line with forecast increases. Considerable success had also come in the export market.

At the end of last month the company acquired Mallon Bros (Woodwaste) and Mallon Bros (Transport) for £1.1m satisfied by the issue of 250,570 shares. In additon 136,905 shares were placed to raise £575,000 to reduce debt in those businesses.

All divisions contribute to help Alba reach £4.6m

ALBA, maker of a wide range of audio, television and related electronic equipment, lifted pre-tax profits by 26 per cent from £3.67m to £4.61m in the year to June 30, its first as a quoted company.

Turnover rose 29 per cent to £41.33m (£32.16m) and all divisions performed well, Mr John Harris, the chairman, said.

A final dividend of 2.85p is proposed for a 4.35p total. Earnings per 10p share moved ahead from 9.79p to 10.83p.

Bush Radio, acquired in June, had performed extremely well, the chairman said, and he expected it to make a good contribution to future profits.

Two other acquisitions made since the year end, Telectredis – renamed Alba-France – and Satellite Technology Systems of Bristol, were gradually being integrated.

Tax charged was £935,000 (£698,000).

Raine extends Ruberoid offer for seven days

By Andrew Hill

Raine Industries, the housebuilder, has extended its hostile cash-and-shares offer for Ruberoid, the roofing materials group, for another week, until 3 p.m. next Wednesday.

In a letter to Ruberoid shareholders, Raine also reiterated the terms of its cash-and-shares offer.

The housebuilder said that by recommending the £141.3m cash counter-bid from Tarmac, the construction and building materials group, Ruberoid's board seemed to have accepted that it did not have sufficient support from its shareholders.

Raine believes that the Tarmac bid will be referred to the Monopolies and Mergers Commission, and is reserving the right to extend its own offer if the counter-bid has not been referred before the new closing date.

The Tarmac offer values each Ruberoid share at 280p, against Raine's bid of 230p a share.

Johnston interim rise but warning given

JOHNSTON GROUP, Surrey-based civil and mechanical engineer, lifted pre-tax profits by 11 per cent from £2.67m to £2.97m in the six months to June 30.

However, directors warned that although Johnston Brothers (Contractors), the civil engineering division, enjoyed a good workload during the period, prospects for the second half had been clouded by the "sudden and unforeseen" Government moratorium on road maintenance.

The civil engineering supplies operation showed a satisfactory return with quarrying companies and the concrete division of Johnston Pipes performing "especially well".

The engineering side performed below expectations, but a slightly improved trading performance was reported by the North American subsidiaries.

Tax took £1.04m (£936,000), and minorities £214,000 (£140,000). Earnings per 10p share worked through at 16.29p (15.42p), and the interim dividend is maintained at 8p.

Kingston Oil makes £774,000

For the year ended June 30 1988 Kingston Oil & Gas, the oil and gas production, development and operating group which was floated in July, made pre-tax profits of $1.33m, or £774,000.

Earnings per 50p share worked through at 6.52p and the proposed final dividend is 0.625p for a total of 1p. That was covered some six times by earnings.

Kingston is based in Ohio, but has headquarters in Manchester. It said it intended to continue expansion by acquiring selected oil and gas businesses

Walter Lawrence surges

A STRONG performance from its housebuilding division enabled Walter Lawrence to report a 68 per cent expansion to £7.02m in taxable profits for the first half of 1988.

The increase from £4.19m was scored on turnover 16 per cent ahead at £109.12m (£93.72m). Mr Brian Pritchard, chairman, said the group had drawn particular benefit from the wide geographic spread of its housing interests, and targets should be achieved despite recent interest rate rises.

During the period, the group acquired further development sites to maintain its land bank to cover requirements for the next 2½ years.

After tax of £2.46m (£1.26m) and minorities £129,000 (nil), earnings per share improved to 9.2p (6p). The interim dividend is raised to 2p (1.25p).

Brooks Service

First-half pre-tax profits at Brooks Service Group, hirer and manufacturer of linen and workwear, rose 34 per cent, from £452,000 to £605,000. Turnover in the 26 weeks to June 25 moved ahead 11 per cent to £7.81m. Earnings rose to 3.7p (3p) and the interim dividend is stepped up to 1.6p (1.4p).

Cliff completes transformation

By Kenneth Gooding, Mining Correspondent

CLUFF RESOURCES, quoted on the USM, will next year complete its transformation from a lossmaking, minor oil company to a profitable, medium-sized gold mining group with an output of about 100,000 troy ounces a year, said Mr J G "Algy" Cluff, the chairman, yesterday.

The company would be in a position to pay a dividend next year but would consult its advisers and major shareholders for their opinion about whether ona should be declared.

"My preference would be to pay a dividend. It has been a long haul for the shareholders and they should be rewarded with some income," said Mr Cluff, who personally owns 6.7 per cent of the company.

He was speaking after Cluff announced a pre-tax profit of £84,000 for the half-year to June 30, compared with a loss of £625,000 for the same period in 1987. Turnover increased by 68 per cent to £1.88m, from £1.12m. Earnings per share were 0.13p (1.15p loss).

Gold production from the Cluff mines in Zimbabwe in the half-year totalled 6,000 ounces and was expected to be in excess of 30,000 ounces for 1988 as a whole.

Cluff said its Royal Family, Freda and Rebecca mines in Zimbabwe were set to produce at an annual rate of 80,000 ounces and two more projects were likely to be brought into production next year to take capacity to 100,000 ounces.

The average cash cost of gold production in Zimbabwe was expected to be about $225 an ounce.

Mr Cluff pointed out that the Zimbabwe government had set up a Z$15m fund and promised to provide a Z$700 an ounce (about US$370) floor price for gold mined in the country.

Production from the Trasacion mine in Almeria, Spain, 50 per cent owned in a joint venture with Angtefagasta, was expected to begin within three months and will add another 5,000 ounces to the company's annual gold output.

Cluff had strengthened its links with Antofagasta and gained a toehold in Chile, a country which, since its plebiscite, Mr Cluff believed will be more accepted by the international community.

Cluff had an option from Antofagasta and the Luksic Group on a small copper-gold mine in central Chile which has a fully-equipped shaft and mill and could be brought back into operation in three to six months at a cost of US$200,000. This would be in line with Cluff's policy of establishing some cash flow and getting staff into a country in order to look for more substantial developments.

Mr Cluff said the company wanted to expand further in Africa and ultimately move into North America. But "we ought to take a deep breath before we make the next move."

He said brokers had been asked to evaluate how much the company might receive if it put its remaining oil and gas interests, which have a book value of £11m, up for sale by tender.

PUBLIC WORKS LOAN BOARD RATES

Effective October 12

Years	Quota loans repaid by EPY†	Quota loans repaid At††	Quota loans repaid at maturity§	Non-quota loans A* repaid by EPY†	Non-quota loans A* repaid At††	Non-quota loans A* repaid at maturity§
1			10¾	-		11½
Over 1 up to 2	10⅝	10⅝	10¼	11⅝	11⅝	11
Over 2 up to 3	10⅜	10⅜	10⅛	11⅜	11⅜	10⅞
Over 3 up to 4	10¼	10¼	10⅛	11¼	11¼	10⅞
Over 4 up to 5	10¼	10⅛	10⅛	11¼	11⅛	10⅞
Over 5 up to 6	10⅛	10⅛	10⅛	10⅝	10⅝	10⅝
Over 6 up to 7	10⅛	10⅛	10⅛	10⅝	10⅝	10⅝
Over 7 up to 8	10⅛	10⅛	10⅛	10⅝	10⅝	10⅝
Over 8 up to 9	10⅛	10⅛	10	10⅝	10⅝	10½
Over 9 up to 10	10⅛	10⅛	9⅞	10⅝	10⅝	10⅜
Over 10 up to 15	10⅛	9⅞	9½	10⅝	10⅜	10
Over 15 up to 25	9⅝	9½	9¼	10⅛	10	9¾
Over 25	9⅜	9¼	9¼	9⅞	9¾	9¾

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

Tudor up by 31% to £0.3m in first half

Tudor, USM-quoted tila distributor and crystal glassware manufacturer, yesterday announced a 31 per cent increase to £295,000 in taxable profits for the six months to end-June.

Turnover was up from £5.22m to £6.23m. Tax accounted for £103,000 (£79,000) and earnings per 20p share expanded to 7.8p (6p). The interim dividend is maintained at 1.5p.

Midland Tile Contractors traded successfully and retained a healthy order book.

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY- Indices of industrial production, manufacturing output (1985=100); engineering orders (£ billion); retail sales volume (1980=100); retail sales value (1980=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value	Unemployed	Vacs.
1987							
1st qtr.	105.6	102.7	27.7	126.4	159.9	3,073	216.4
2nd qtr.	105.0	106.2	26.0	128.3	165.9	2,965	225.1
3rd qtr.	107.6	109.0	28.5	131.5	171.5	2,827	241.3
4th qtr.	108.3	109.5	29.2	133.4	210.5	2,655	262.1
December	108.4	109.5	29.5	135.5	244.0	2,614	266.0
1988							
1st qtr.	108.6	111.2	32.4	135.5	173.3	2,534	247.6
2nd qtr	109.5	112.7	31.4	129.3	181.2	2,414	254.8
January	109.4	111.9	21.1	134.6	170.6	2,595	249.5
February	107.5	110.4	32.4	135.3	169.5	2,533	247.9
March	108.9	111.4	32.4	135.5	175.1	2,504	245.5
April	109.1	112.0	31.8	136.4	180.4	2,453	253.7
May	109.5	112.9	32.0	136.8	180.5	2,414	256.5
June	109.9	113.1	31.8	136.8	182.3	2,372	255.2
July	110.3	115.9	31.8	140.1	181.4	2,312	249.4
August				140.8	187.7	2,267	241.6

OUTPUT- By market sector; consumer goods; investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

	Consumer. goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1987							
2nd qtr.	105.2	106.4	105.6	105.6	109.3	104.0	20.0
3rd qtr.	106.4	105.4	106.8	105.9	109.9	104.8	19.8
4th qtr.	106.2	107.9	105.0	107.7	111.5	103.0	17.0
1988							
1st qtr.	109.1	106.0	106.5	108.1	118.0	104.3	20.1
2nd qtr	110.8	110.6	106.6	110.3	119.9	102.2	23.0
January	109.4	106.1	110.5	106.8	120.9	106.0	19.2
February	108.5	108.0	107.0	107.0	116.0	105.0	20.5
March	109.5	110.0	108.1	110.0	110.0	102.0	21.6
April	109.6	109.5	106.7	109.0	123.0	102.0	21.2
May	112.1	108.4	106.7	109.0	118.0	104.0	23.0
June	110.7	113.5	108.4	112.0	118.0	101.0	25.2
July	113.4	115.5	107.0	115.0	126.0	104.0	22.3
August							24.9

EXTERNAL TRADE- Indices of export and import volume (1985=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1985=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn
1987							
2nd qtr.	106.2	111.3	-2,390	-355	+1,016	97.6	34.30
3rd qtr.	109.2	116.5	-3,201	-1,103	+936	97.9	34.61
4th qtr.	111.3	120.5	-3,280	-1,801	+1,073	97.6	44.33
1988							
1st qtr.	106.0	117.6	-3,962	-2,842	+880	97.9	44.04
2nd qtr	111.1	127.4	-4,433	-2,914	+679	98.9	48.52
January	108.4	116.6	-1,393	-1,023	+356	97.6	43.09
February	103.6	118.0	-1,536	-1,165	+311	97.1	42.93
March	107.0	115.7	-1,024	-654	+213	98.6	44.04
April	113.2	124.0	-1,208	-702	+309	98.8	47.86
May	108.9	127.2	-1,684	-1,177	+221	99.1	48.53
June	111.0	131.9	-1,541	-1,035	+148	99.1	48.52
July	108.1	145.1	-2,051	-2,151	+65	98.7	49.33
August	105.1	130.1	-1,613	-1,313	+146	99.9	50.84

FINANCIAL-Money supply M0, M1 and M3 (annual percentage change); bank sterling lending to private sector; building societies' net inflow; consumer credit†; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M1 %	M3 %	Bank lending £m	BS inflow £m	Cnsmer. credit† £m	Base rate %
1987							
3rd qtr.	5.0	20.5	19.7	+11,448	1,211	+874	10.00
4th qtr.	4.5	23.0	22.5	+11,202	3,007	+946	8.50
1988							
1st qtr.	5.3	21.0	20.9	+12,030	3,051	+1,036	8.50
2nd qtr	6.5	18.6	20.3	+15,329	4,173	+1,066	9.50
3rd qtr.							12.00
January	4.6	21.8	22.5	+5,598	890	+288	8.50
February	5.3	21.0	20.6	+2,554	1,102	+321	9.00
March	5.8	21.0	20.9	+4,776	1,059	+426	8.50
April	6.1	21.2	19.4	+6,216	1,576	+261	8.00
May	6.2	19.6	18.6	+3,142	1,358	+365	7.50
June	7.3	18.6	20.3	+5,671	1,239	+438	9.50
July	6.9	17.9	20.6	+6,431	1,382	+296	10.50
August	7.8	15.6	20.1	+3,131	1,179	+538	12.00
September							12.00

INFLATION-Indices of earnings (1985=100); basic materials and fuels; wholesale prices of manufactured products (1985=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100)

	Earnings*	Basic matls.*	Whsale. mnfg†	RPI*	Foods	Reuters* cmdty.	Sterling
1987							
3rd qtr.	117.7	95.3	108.8	102.1	100.5	1,647	72.7
4th qtr.	120.0	96.4	109.5	103.2	101.7	1,593	74.9
1988							
1st qtr.	121.7	98.9	111.0	103.7	103.5	1,747	75.9
2nd qtr	124.8	97.6	112.7	106.2	104.6	1,817	77.6
3rd qtr.						1,902	75.9
January	120.5	98.1	110.8	103.3	102.9	1,752	74.9
February	120.4	96.6	111.0	103.7	103.6	1,756	74.3
March	124.1	95.7	111.4	104.1	103.9	1,724	76.8
April	124.4	96.3	112.2	105.8	104.4	1,736	78.2
May	124.2	97.7	112.6	106.2	104.7	1,778	78.4
June	125.9	98.9	113.0	106.8	104.9	1,936	76.3
July	126.2	99.4	113.5	106.7	104.3	1,870	75.6
August		98.4	113.9	107.9	104.4	1,863	75.5
September		98.1	114.3			1,878	75.6

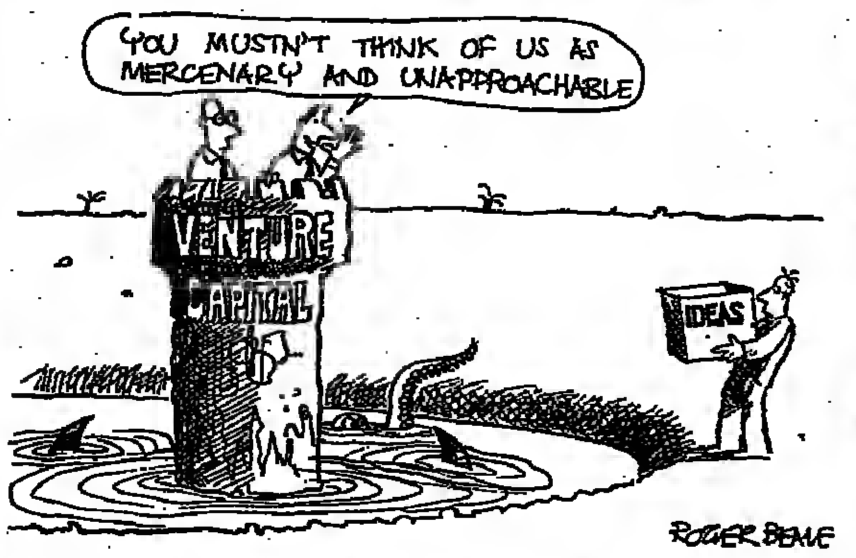
*Not seasonally adjusted

†Net changes in amounts outstanding, excluding bank loans.

MANAGEMENT: Marketing and Advertising

Giving finance a more human face

Charles Batchelor explains why venture capitalists are polishing up on their marketing



Peter Smitham, a partner in Schroder Venture Managers, the venture capital arm of the Schroders banking group, confesses to having been shocked. Like many other executives in Britain's fast-growing venture capital community he had convinced himself he had done a good job in projecting a welcoming image to the entrepreneurs he was keen to back.

The response to an FT article* describing how Schroders set about sifting the good propositions from the bad has given Smitham and his team pause for thought. Several entrepreneurs telephoned to say that their impression of venture capitalists as distant and unhelpful had changed. "They said how pleased they were to see we were human after all," he says.

These comments convinced Smitham and his fellow executives that an improvement in Schroders' marketing effort was needed if venture capitalists were not to be bracketed with bankers as remote and unfriendly.

"We realised our approach was impersonal; that people wanted to know how deals were done; that we needed to humanise the case histories of deals we had done that we published in our brochures," he says."

The dilemma facing Schroders is paralleled at many of the 120 or so venture capital companies which have been set up over the past decade. The venture capital industry has grown at rapidly as entrepreneurs and, more recently, company executives intent on staging management buy-outs, have made grateful use of a new source of funds.

The difficulty for the venture capitalist has been not in finding customers but in fending off the delnge of enquiries. Venture capital groups typically turn down 49 out of every 50 enquiries they receive. "The problem with advertising is you get inundated with a lot of not-very-good proposals," says John Nash, managing director of Advent and current chairman of the British Venture Capital Association.

The past year so has seen the beginnings of a change. The large amounts of money available for investment, particularly in the popular buy-out field, have forced the venture capital industry to rethink its approach to marketing. Venture capitalists now realise they must sell themselves to get the really good deals.

"Until recently marketing effort and marketing budgets were low," says David Hutchings, marketing director at Midland Montagu Ventures. "Resources were allocated on an *ad hoc* basis rather than as part of a strategy. But times have changed."

Ironically, for an industry which supposedly takes a long-term view of its investments, typically from three to seven years, venture capital has taken a short-term view of marketing. "It is a very hard decision to allocate specific resources to an area such as marketing, which is unlikely to produce immediate results," notes Hutchings.

Midland Montagu decided a more determined campaign was needed to increase its visibility and to differentiate it from its competitors. Money was available aplenty for the attractive deal so the venture capitalist had to sell his management expertise either in helping young and struggling companies or in putting together complex financing.

Midland Montagu spent two years hunting for a brand name and came up with The Venture Catalysts, a title Hutchings feels reflects his fellow executives' industrial experience and their catalytic role in bringing together managements, companies and funds. This has led to a significant improvement in Midland Montagu's market position, he claims.

A high-profile advertising promotion campaign is also the route that has been taken by 3i, the largest provider of venture and development capital in the UK. From the adoption of the new title and "eye" motif in 1983, 3i (formerly known as Investors in Industry) has adopted an innovative approach to the generally dull world of financial services advertising.

3i currently spends £2m a year on a combination of TV and newspaper advertising and travelling "roadshows." This campaign is carefully planned to achieve maximum impact, explains Chris Woodward, marketing director.

"The TV ads explain who we are; the full page ads in national newspapers say in general terms what we do; while coupons and promotional inserts in newspapers and magazines and the roadshows aim to explain what 3i can do for the individual businessman."

The roadshows typically attract 800 entrepreneurs over the three days for which they are open in selected provincial towns. 3i sent out 10,000 information packs to local businesspeople in Birmingham before holding a roadshow there. It targeted directors in companies listed on commercial databases as having turnover of around £1m and members of business graduate and other professional associations.

As the largest UK venture capital organisation, 3i of necessity has to generate large volumes of business. Unlike the smaller venture capital organisations which carefully select their investments and closely monitor them for a quick return 3i takes a "hands-off" approach to its investments and is prepared to give them time to mature. To reach the 1,000 projects it needs to back each year it has to spread its net wide and use advertising, says Woodward.

This technique has been successful because 80 per cent of those polled in awareness tests knew of 3i compared with just 8 per cent two years ago, he says . But the mass approach would not be suitable for the smaller more specialised venture capital organisations, Woodward acknowledges.

Rothschild Ventures, part of the N.M. Rothschild banking group, is typical of the smaller organisations which are now taking a more structured approach to marketing. When the number of proposals coming to Rothschild from outside the south-east of England started to drop off last year it took a hard look at how it sold its services, says Jeremy Dawson, managing director.

Like many other venture groups Rothschild got most of its deal proposals from accountants and other financial consultants. Its six-strong venture team set about cultivating accountants, solicitors and stockbrokers in the large provincial cities such as Glasgow, Manchester, Leeds and Birmingham. They now make regular visits, call in for a chat if they are in the area and declare their willingness to give a preliminary reaction to a proposal over the telephone.

Rothschild Ventures is also culling its own database of companies with which it has had dealings to pick out those with sales of £3m to £10m. It then approaches those which seem most likely to need additional venture capital funding. "It's an informal approach. There is no hard sell," says Dawson. "You have to be able to offer more than money. We may offer to find takeover candidates for fast-growing companies or suggest a company goes to market or sells some shares."

Tony Lorenz, managing director of ECI, another of the smaller venture funds, says marketing plays a more important role in his company's latest five-year plan, drawn up in early 1988, than in its predecessor. "Five years ago the industry was growing quickly and deal flow was ballooning," he recalls.

Individual members of the ECI team now have a personal contact list of accountants, lawyers, head bunters and directors of companies which have already been helped, whom they contact and lunch on a regular basis. "Control is quite formal because we don't want to tread on each other's toes," says Lorenz. "It's uncanny how the meetings lead to deals."

Lorenz and his team also regularly write articles for the specialist financial press and make presentations at conferences and seminars to keep their organisation's name in the eye of intermediaries who provide the flow of deals.

ECI is currently promoting the idea of "venture buy-outs" – buy-outs of small companies with a chequered trading history. Such deals, typically worth less than £10m, require special skills because they are as difficult to do as start-ups and are far removed from very large buy-outs, Lorenz argues.

Attaching brand names like this to "products" is as important in the venture capital industry as it is in the consumer field. Midland Montagu Ventures has heavily promoted the concept of the management buy-in – where outside managers come in to run a company – as something new and exciting.

It successfully used a combination of seminars, magazine articles written by its staff and advertising to establish the buy-in, though the practice of outside managers coming in to rescue ailing companies had been around for years. The buy-in team nevertheless took over from the "company doctor" as a fashionable means of revitalising poorly-performing businesses.

Whatever method individual venture capital organisations choose to market themselves the common factor is a need for greater professionalism. "In the past the strategy was opportunism," says Woodward. "But now the policy of 'see a deal, do a deal' is inadequate. You must still be opportunistic but you need to set yourself objectives on top of that."

**Management Page: Small Business, August 16, p.10.*

Focus on differences. . .

Philip Rawstorne on contrasting studies of European consumers

As Europe moves towards a single mass market, many companies in the US are moving towards more regional or local marketing. Procter & Gamble, Colgate-Palmolive, Pepsi-Cola, Campbell Soup and Apple Computer are among the companies that have reorganised either, or both, their sales and marketing organisations to focus more closely on ever-smaller geographic targets.

Why? "Because they realise that there are important differences in consumers from one part of the country to another and the differences were not being properly addressed under the old national marketing or sales organisations," says Clay Timon, director of worldwide advertising for Colgate-Palmolive.

European businesses must not lose this consumer focus, Timon warned at the pan-European advertising and marketing conference convened in London last week by the International Advertising Association and International Business Communications.

"Just because January 1 1993 rolls around the Italian housewife will not suddenly become a homogenised 'European consumer'. Her needs, her desires and her consumption habits are not going to change appreciably."

Colgate's products had been sold in Europe since the late 1800s. Today, with operations in every Western European country, Colgate Europe's annual sales of $1.5bn represented a third of the company's worldwide turnover.

But there were important differences in how the company marketed its products in various European countries, Timon said. Toothpaste was regarded in Greece and Spain as being more of a cosmetic for the individual, while in the Netherlands and the UK it was seen more as a family health product. "These very different needs, while being met with the same product, result in equally effective, but very different advertising."

Spain and the UK had the highest per capita consumption of bar soap. "But when you talk to consumers in the two countries you find that they see bar soap in very different terms. For the UK, bar soap is an all family item, almost a commodity, and something one uses to get clean. In Spain, soap is a cosmetic. It cleans, but it also carries with it strong beauty enhancement or cosmetic characteristics," Timon said. Again, the different perceptions were reflected in the advertising.

Some products had to be reformulated to meet different consnmer needs, Timon reported. Ajax cleaner was used in northern Europe primarily straight from the bottle to clean small areas. Ease of application and a shiny result were what consumers wanted, and the advertising focused on those qualities.

In southern Europe, consumers diluted Ajax and used it to clean much broader surfaces, more often made of tiles or wood than plastic. Under such conditions, Ajax left a cloudy film which had to be removed by rinsing. Colgate, therefore, reformulated the product so that rinsing was no longer necessary – and its advertising emphasised the labour-saving.

Business would reap the main benefits of the single market from cost sevings. Those benefits would have to be shared with consumers in the form of price reductions or product improvements if the single market were to work, Timon suggested.

. . .and on similarities

British, West German, and French market research companies are already co-operating in a major study of the pan-European market designed to identify shared values and attitudes among consumer groups of different nationalities.

Market research on a European scale faces difficulties because of differences in the way each country collects data about population, and allows official statistics to be used.

Significant political, economic and social upheavals in various countries at various times – such as the end of the Franco dictatorship in Spain – also affect the analysis of consumers by age groups. Social class categories also differ.

So two groups, Europanel and CCA, are combining to identify the life-styles, needs and aspirations of potential customers in Europe. Europanel has been established for over 20 years and comprises AGB, the UK's largest research company, Germany's GFK, and Secodip of France, while CCA is part of the French Havas advertising group.

"So often we are inclined to amphasisa the differences between European countries," says John Whitaker, managing director of AGB Market Information. "Yet there is an underlying core of values and attitudes that transcend political boundaries. It is these shared values which will be so important to marketers in the future."

In the first stage of the study, a questionnaire, covering some 5,000 life-style options, was completed by representative samples of people in 15 European countries. The survey investigated current attitudes and opinions on a wide range of social and political issnes and invited people's views on the sort of future they would like to see.

It sought answers to such questions as how people spent their leisure time, where they shopped, what drinks they preferred, and what they thought of advertising. Analysis of the data has identified 16 life-style types, pinpointed by behaviour patterns, media preferences, attitudes and philosophy of life, needs and aspirations.

This month, the second phase of the study begins, covering some 20,000 people in the 15 countries. It will measure the size of the different life-style groups and examine them in more depth.

It will, for instance, probe the television viewing habits of each type in the belief that Euro-marketing will gather pace with satellite broadcasting before 1992. AGB claims that the research sbould improve media-buying efficiency by 15 per cent.

For AGB, Whitaker says: "The results of this study will give a common basis for interpreting consumer behaviour both across national boundaries and within them. This will enable us to advise clients – often managed, staffed and organised ona national basis – on their approach to the more complex environment in which they will be marketing their products."

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(Accum Units)	5	59.26	60.83	64.54	+0.04	1.40
Fellowship Tst	5	58.75	58.76	62.13	-1.67	1.80
(Accum Units)	5	59.88	59.88	63.32	-1.70	1.80
General Inc	5	263.5	263.5	278.6	-0.3	3.35
(Accum Units)	5	435.3	435.3	460.3	+0.4	3.35
Income	5	140.9	145.7	154.6	+0.2	4.56
(Accum Units)	5	265.5	274.4	291.1	-0.2	4.56
International	5	105.2	105.2	111.3	-0.5	1.66
(Accum Units)	5	142.6	142.6	150.8	-0.7	1.66
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Income	5	43.94	44.26xd	46.99	-0.12	5.9
International	5	35.22	35.53	37.72	-0.07	0.9
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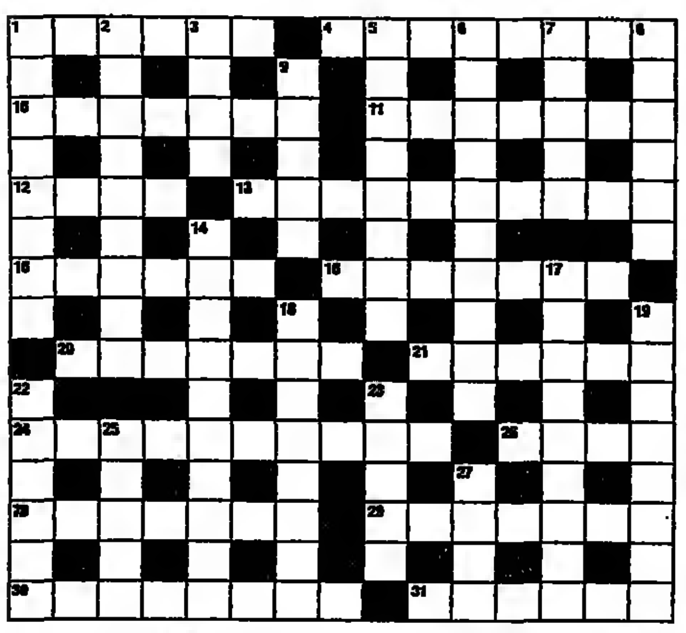
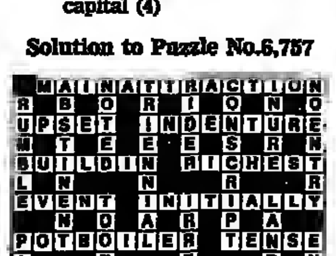


ACROSS
1 Lorraine's companion (6)
4 Once said to be a bishop (8)
10 Sea creature in flower (7)
11 Ended series, having exceeded time allowed (7)
12 Satisifed with a quarter measure (4)
13 Visible signal (10)
15 Back numbers at a musical performance (6)
16 It's more his sort of bravery (7)
20 How happy cowboys might be? (7)
21 New organisation takes blame for cover up (6)
24 Having a diploma might give one a nice title (10)
26 Unrepeatable start of fairy story (4)
28 Club retainer who used to drag his wife along (7)
29 I'd sent e replacement as a substitute (7)
30 Came into force (8)
31 Eddy tore out between five and ten (6)

DOWN
1 He raises unnecessary fears of a mistral storm (8)
2 Somehow resent accepting little bribe (9)
3 Cut some French meat up (4)
5 He's concerned with his image, being badly tailored (8)
6 Verify an important issue with Charlie on the Berlin border (10)
7 Type of brush undergrowth (5)
8 Ann set out for French town (6)
9 Cut, cut hard (5)
14 Same agents, but different actors adopt them (5-5)
17 New net cord starts tight (9)
18 Fed up with Caine Mutiny showing contempt of authority (8)
19 Something we can well do without at the end of a book (8)
22 Gardening accessory that's old hat (6)
23 A revealing series of pictures? (5)
25 Polite sort of servants (5)
27 Go slow going round the capital (4)

Solution to Puzzle No.6,757



GUIDE TO UNIT TRUST PRICING

The data included under the Authorised section of the FT Unit Trust information pages is being expanded to improve the service to readers and to conform with new legislation.

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that prices are set on a historic basis. This means that, unless there has been an intervening portfolio revaluation, investors can normally buy and sell units today at the prices appearing in the newspaper which have been set on the basis of yesterday's asset value.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes are contained in the last column of the FT Unit Trust Information pages.

07:10:01:Tdp

FT UNIT TRUST INFORMATION SERVICE

Sun Life Trust Mangmt Ltd (1200)H

Swiss Life Pen Tst Man Co Ltd (1000)H

TSB Unit Trusts (y) (1000)F

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

MIM Ltd

Murray Johnstone UT Mngmt

New Court Property Fund Managers

Phillips & Drew Fnd Management Ltd

J. Rothschild Fund Managers Ltd

Barclays Life Assur. Co Ltd

Black Horse Life

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 1JS 0603 683986

	Bid Price	Offer Price	+ or −	Yield Gross
NUAM Funds				
Managed Fund	54.7	57.6	−0.1	−
Stock Market Mngd Fund	52.3	55.1	−0.1	−
Equity Fund	56.4	59.4	−0.2	−
International Fund	49.0	51.6	−0.1	−
European Fund	49.4	52.0	−2.4	−
North American Fund	46.5	49.0	−0.3	−
Pacific Fund	58.7	61.8	+0.2	−
Property Fund	66.4	69.9	−	−
Fixed Interest Fund	52.9	55.7	−0.1	−
Index linked Sec Fund	52.1	54.9	−0.1	−
Deposit Fund	54.4	57.3	−	−
NUAM Retirement Plans				
Mixed Fund	58.2	61.3	+0.1	−
UK Ordinary Share Fd	65.4	68.8	−	−
International Fund	50.4	53.1	−0.2	−
Property Fund	64.5	67.9	−	−
Fixed Interest Fund	57.0	60.0	−	−
Index Linked Sec Fund	53.0	55.8	−	−
Deposit Fund	58.4	61.5	−	−
NUAM (IAF)				
Managed Fund	744.8	784.0	−1.0	−
Equity Fund	1468.9	1546.1	−6.0	−
Property Fund	414.0	435.8	+0.1	−
Fixed Interest Fund	390.3	410.9	−1.3	−
Deposit Fund	222.7	234.5	−	−
International Fund	127.6	134.4	−0.1	−
Index Linked Sec Fund	52.3	55.1	+0.1	−

Norwich Union Life Insurance Soc.
PO Box 149, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	+ or −	Yield Gross
Unitised Pensions				
With Profits Fd	106.72	112.33	+0.04	−
Managed Fd	117.56	123.75	−0.10	−
UK Equity Fd	120.96	127.33	+0.09	−
International Fd	119.71	126.01	−0.27	−
European Fd	112.30	118.21	−0.66	−
North American Fd	119.31	125.59	−0.46	−
Pacific Fd	111.13	116.90	+1.55	−
Property Fd	117.38	123.56	+0.01	−
Fixed Int Fd	100.95	106.27	+0.01	−
Intl Bond Fd	106.59	112.20	−0.27	−
Bldg Soc Dep Fd	102.03	107.40	+0.03	−

Providence Capital Life Assc. Co Ltd — Contd.

	Bid Price	Offer Price	+ or −	Yield Gross
Pacific Initial		59.0	−0.3	−
Technology Initial		82.5	−0.5	−
Nat Resources Initial		47.5	+0.1	−
Japan Growth Initial		104.9	+1.8	−
European Initial		71.0	+0.5	−
Residential Prop Init		115.9	−	−
Swiss Equities Initial		32.7	−0.1	−
Hong Kong Initial		43.3	+0.1	−
UK High Inc Eq Init		60.4	−	−
Int Fixed Interest Init		48.3	−	−
Int Managed Init		46.7	−	−
Broker Fund				
Towerhill Mngd Fd Acc	47.1	49.6	−0.4	−
High Performance	61.0	64.3	+0.4	−
YRA Executive Fd	78.1	82.3	−	−
Investment Master		39.0	−	−
K F Specialist Fd		111.8	+0.4	−
£ High Inc Money Fd		103.1	−	−
£ Global Growth Fd		103.1	−	−
PEP Acorn O		100.6	−	−
AAFS Int Man Fund		100.2	−0.3	−
Individual Pension Funds				
UK Equity Acc	209.2	220.7	−0.9	−
UK Fixed Interest Acc	162.2	171.1	−0.2	−
Intl Equities Acc	167.2	176.4	+0.5	−
UK Managed Acc	150.5	158.1	+0.1	−
Property Acc	184.9	195.1	−0.1	−
Money Acc	114.1	120.4	−	−
Special Market Acc	134.9	142.4	+0.8	−
Japanese Acc	219.1	231.2	−	−
North American Acc	113.8	120.0	−0.5	−
Pacific Acc	134.7	142.1	−0.8	−
Technology Acc	132.6	139.9	−1.0	−
Natural Resources Acc	91.4	96.5	−0.2	−
Japan Growth Acc	253.6	267.6	+2.6	−
European Acc	85.7	90.5	+0.7	−
Residential Prop Acc	122.1	128.9	−	−
Swiss Equities Acc	32.6	34.4	+0.1	−
Hong Kong Acc	42.6	45.0	−0.6	−
UK High Inc Equ Acc	64.1	67.7	−0.1	−
Int Fixed Interest Acc	48.9	51.6	−	−
Int Managed Acc	46.6	49.1	−	−
Broker Fund				
Towerhill Mgd Pen Acc	39.7	41.8	−0.2	−

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
100¼	99[illegible]	Treas. 9½pc '88	99[illegible]xd		—	—
102[illegible]	99[illegible]	Treas 11½pc 1989	99[illegible]		11.50	11.28
101[illegible]	98[illegible]	Treas 9½pc Cnv 1989	99[illegible]		9.57	11.02
97[illegible]	95[illegible]	Treas 3pc 1989	96[illegible]xd		3.09	8.47
102[illegible]	99[illegible]	Treas 10½pc 1989	99[illegible]		10.54	11.05
102	98[illegible]	Exch 10pc 1989	99¼		10.07	10.92
103[illegible]	99[illegible]	Exch 11pc 1989	100[illegible]		10.98	10.75
97[illegible]	94[illegible]	Treas 5pc 1986-89	95[illegible]xd		5.23	9.58
104[illegible]	98¼	Exch 10¼pcCv '89	100[illegible]xd		10.23	10.06
107½	102½	Treas 13pc 1990‡‡	103[illegible]	–[illegible]	12.61	10.21
104½	100[illegible]	Exch 11pc 1990‡‡	100[illegible]	–[illegible]	10.90	10.19
107[illegible]	102[illegible]	Exch. 12½pc 1990	102[illegible]	–[illegible]	12.15	10.35
93[illegible]	90[illegible]	Treas. 3pc 1990	91[illegible]xd	+[illegible]	3.27	8.76
99[illegible]	95[illegible]	Treas 8¼pc 1987-90‡‡	97½	–[illegible]	8.48	10.06
102¼	95¼	Treas. 8pc Cv 1990‡‡	99[illegible]	–[illegible]	8.07	8.55
103[illegible]	98[illegible]	Treas. 10pcCv 1990	99[illegible]xd	–[illegible]	10.03	10.20
91[illegible]	87[illegible]	Exch 2½pc 1990	88½	–[illegible]	2.82	8.46
107¼	101[illegible]	Treas 11¼pc 1991	103[illegible]		11.41	10.18
95[illegible]	90[illegible]	Funding 5¾pc '87-91‡‡	91[illegible]		6.27	9.60
90[illegible]	86[illegible]	Treas. 3pc 1991	87[illegible]xd	+[illegible]	3.43	8.56
105[illegible]	98[illegible]	Treas 10pc Cv '91‡‡	100[illegible]	+[illegible]	9.94	9.71
107[illegible]	100[illegible]	Exch. 11pc 1991	102[illegible]xd		10.74	10.06
98[illegible]	92[illegible]	Treas. 8pc 1991	94[illegible]		8.47	10.10
113[illegible]	105[illegible]	Treas 12¾pc 1992‡‡	107[illegible]		11.87	10.00
104[illegible]	98[illegible]	Treas 10pc 1992	100[illegible]		10.00	9.99
98[illegible]	92¼	Treas. 8pc 1992‡‡	94[illegible]		8.49	10.00
106½	99½	Treas 10½pc Cv 1992‡‡	101[illegible]	–[illegible]	10.35	10.01
86[illegible]	82¼	Treas. 3pc 1992	[illegible]	+[illegible]	3.60	8.38
112[illegible]	104[illegible]	Exch. 12¼pc '92	106[illegible]	–[illegible]	11.45	10.01
117[illegible]	108[illegible]	Exch 13½pc 1992	111[illegible]	–[illegible]	12.16	10.03
97[illegible]	91¼	Treas 8¼pc 1993	94[illegible]		8.78	9.97
105[illegible]	97[illegible]	Treas 10pc 1993‡‡	100[illegible]		9.98	9.93
115[illegible]	107[illegible]	Treas 12½pc 1993‡‡	[illegible]		11.42	9.94
93[illegible]	87[illegible]	Funding 6pc 1993‡‡	[illegible]	–[illegible]	6.79	8.97

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Further dollar decline

THE DOLLAR broke through significant support levels in Far East trading yesterday, and hovered nervously within a narrow range after a much lower start to the European trading session.

Sentiment continued to be influenced primarily by recent data, suggesting a slow down in US economic growth. The extent of the weaker tone was only restricted by proximity of US August trade figures, due for release today.

Nevertheless, the US unit received very little help from the G7 central banks, with the exception of very modest intervention by the Bank of England, and institutional investors now seem more inclined to explore the dollar's downside potential, given the underlying bearish tone.

Today's release of August trade data is expected to show a shortfall of around $11.2bn against $9.5bn in July. A wider deficit could see further downward pressure on the US unit.

The dollar slipped to Y128.90 against the yen, its worst level since mid-June, and down from Y131.90 on Tuesday. Against the D-Mark it fell to DM1.8355 from DM1.8520, and slipped elsewhere to SFr1.5500 from SFr1.5700 and FFr6.2550 compared with FFr6.3100. On Bank of England figures, the dollar's exchange rate index fell from 98.0 to 97.5.

Sterling continued to gain strength from a growing perception that interest rates are likely to remain as high as is necessary to support the pound, and bear down on inflation. Consequently the attraction of sterling instruments enticed further buying orders from overseas investors. Once again the Bank of England intervened to sell dollars - more as an attempt to smooth the pound's rise rather than reverse it.

Sterling's exchange rate index finished at 76.5, up from 76.4 at the start and Tuesday's close. Dealers suggested that the Bank of England sold dollars when sterling touched $1.7275, but by the close, the pound had improved to $1.7325, its best level since late July, and up from $1.7170 on Tuesday. However the dollar's weaker tone elsewhere meant that the pound also registered small losses against its major trading partners. Apart from the D-Mark, against which the pound finished unchanged at DM3.1800, sterling slipped to Y223.25 from Y225.00 and SFr2.6850 from SFr2.6950. A weaker French franc enabled the pound to improve to FFr10.8375 from FFr10.8350.

The D-Mark found increasing fundamental support as it approached Y70.00. Most dealers expect this level to hold, pointing out that last time the D-Mark broke below this level, West German interest rates were increased, and the D-Mark recovered to Y73.0 within a fortnight. In addition, the yen's recent rise is seen by some as being a little overdone. However, from Tuesday's close of Y70.73, the D-Mark opened lower at Y70.10, and by midday was straddling the Y70.0 level.

But there was little incentive to break through this level, and the D-Mark came back to finish at Y70.23.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Oct.12	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.5143	+2.49	+0.92	±1.5344
Danish Krone	7.85212	8.00436	+1.94	+0.37	±1.5404
German D-Mark	2.05853	2.07579	+0.84	-0.73	±1.0981
French Franc	6.90403	7.07640	+2.50	+0.93	±1.3674
Dutch Guilder	2.31943	2.34008	+0.89	-0.68	±1.5012
Irish Punt	0.768411	0.774511	+0.79	-0.78	±1.6684
Italian Lira	1483.58	1546.52	+4.26	+3.30	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

FINANCIAL FUTURES

A generally weak tone

STERLING AND dollar interest rate contracts weakened on Liffe yesterday. Doubts about the ability of December short sterling to remain above a technical resistance point of 88.36 were fulfilled, as traders saw little prospect of a cut in bank baserates, in spite of the strong pound.

The contract opened at 88.37, and touched 88.39, before closing at the day's low of 88.28, compared with 88.38 on Tuesday.

Long gilt futures also lost ground, in subdued trading.

US Treasury bonds for December delivery opened weak at 89.11, and finished at 89.13, against 89.28 previously.

Bond prices began on a depressed not in Chicago, as dealers showed increasing concern about the dollar's decline. A vote by the Senate, which will enable the US Treasury to issue a long bond in November, also weighed on the market.

Fears that today's US trade figures for August will show a widening deficit, and accelerate the dollar's fall, added to the mood of nervousness.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
90	642	714	0	4
92	444	524	2	14
94	250	342	8	32
96	112	205	34	105
98	24	108	146	162
100	6	35	328	325
102	2	12	524	502

Estimated volume total, Calls 1615 Puts 427
Previous day's open int. Calls 28826 Puts 33707

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
82	730	723	4	33
84	535	545	9	55
86	347	403	21	123
88	210	259	48	205
90	101	159	139	305
92	26	115	300	425
94	11	48	449	558

Estimated volume total, Calls 175 Puts 175
Previous day's open int. Calls 6881 Puts 3379

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Oct	Calls-settlements Nov	Puts-settlements Oct	Puts-settlements Nov
17000	1335	1364	0	29
17500	843	926	8	95
18000	405	565	70	230
18500	126	303	289	468
19000	21	140	685	805
19500	2	56	1167	1221
20000	0	19	1665	1684

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 1 Puts 21

OTHER CURRENCIES

Oct.12	£	$
Kuwait	0.49630-0.49680	0.28705-0.28715
Luxembourg	66.55-66.65	38.40-38.50
Malaysia	4.6315-4.6430	2.6810-2.6830
Mexico	3947.90-3964.00	2284.00-2292.00
N. Zealand	2.7730-2.7780	1.6025-1.6050
Saudi Ar.	6.4850-6.4910	3.7510-3.7520
Singapore	3.5100-3.5160	2.0310-2.0330
S. Af (Cm)	4.2720-4.2835	2.4730-2.4760
S. Af (Fn)	6.9170-7.0580	4.0000-4.0815
Taiwan	49.50-49.75	28.90-29.00
U.A.E.	6.3495-6.3555	3.6725-3.6735

*Selling rate

EXCHANGE CROSS RATES

F Fr.	0.923	1.599	2.934	206.0	10.	2.477
S Fr.	0.372	0.645	1.184	83.17	4.037	1.
B Fl.	0.279	0.483	0.887	62.29	3.024	0.749
Lira	0.422	0.732	1.343	94.30	4.578	1.134
C $	0.476	0.826	1.515	106.4	5.164	1.279
B Fr.	1.502	2.602	4.775	335.3	16.28	4.032

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

UK rates firmer

INTEREST RATES were slightly firmer on the London money market yesterday, in spite of the continued strength of the pound.

Intervention by the Bank of England to sell sterling, tended to confirm the view that UK interest rates will not be cut to prevent the pound rising. Base rates are expected to remain at 12 p.c. in the foreseeable, unless economic news forces yet another rise.

UK clearing bank base lending rate 12 per cent from August 25 & 26

Three-month sterling interbank rose to 11$\frac{13}{16}$-11$\frac{11}{16}$ p.c. from 11⅞-11$\frac{11}{16}$ p.c., and 12-month increased to 11⅝-11½ p.c. from 11$\frac{9}{16}$-11$\frac{7}{16}$ p.c.

The Bank of England initially forecast a money market shortage of around £100m, but revised this to a flat credit position in the afternoon. The authorities did not operate in the market during the day.

Bills maturing in official hands, repayment of late assistance, and a take-up of Treasury bills drained £305m, with a rise in the note circulation absorbing £110m. These factors were offset by Exchequer transactions adding £290m to liquidity, and bank balances above target of £15m.

The market in ECU Treasury bills began trading on a quiet note, with prices on all maturities virtually unchanged. Three-month bills were quoted at 7.20-7.15 p.c., compared with an average yield of 7.18 p.c. at Tuesday's tender.

In New York the Federal Reserve added $1.5bn of temporary reserves to the banking system, via a round of customer repurchase agreements, when Federal funds were trading at 8¼ p.c.

In Frankfurt call money was unchanged at 4.75 p.c. after the West German Bundesbank drained a net DM2.3bn from the banking system at this week's securities repurchase agreement tender.

The Bundesbank accepted bids of DM16bn for a 28-day pact at a fixed 4.25 p.c., but DM18.3bn left the market as an earlier agreement expired.

Banks face a drain of liquidity from tax payments and there was some disappointment that the central bank did not fully replace the expiring pact, but the market remains liquid, and there is little fear of firmer interest rates.

Reserve holdings of the commercial banks rose to DM57.6bn on Monday, after climbing last week, and reaching DM56.2bn on Friday. Average reserves for the first 10 days of October were DM55.1bn, against an estimated requirement for the whole month of DM54.5bn.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

BUSINESS LAW

EC joins extraterritoriality club

By A.H.Hermann, Legal Correspondent

FOR OVER 20 years, the European Court refrained from affirming the Commission's claim that it can prosecute foreign companies for anti-competitive behaviour that has taken place outside of the Community, as long as such behaviour had some adverse effect on trade between member states. This claim was based on the assumption that a US style "effects doctrine" was implied in the competition rules of the EEC Treaty. On September 27 1988, in a judgment disposing of the preliminary jurisdictional issues of the Wood Pulp case (No 89/85), the Court finally granted the Commission the ardently desired extraterritorial jurisdiction.

As if to compensate for its long reluctance, the Court adopted a language more radical than was ever heard from a US court. The judgment goes much further than the German anti-trusters who apply the effects doctrine, embodied in their legislation, only with the greatest circumspection; as far as I know, they have never used it against a foreign export cartel as the European Court has in the present case.

The UK, in general, supported the Commission's case against the alleged cartel of US, Canadian, and Finnish suppliers of wood pulp but argued that only those of its members can be prosecuted who operated within the Common Market through subsidiaries, branch offices, agents or business representatives. The UK holds that the effects doctrine is contrary to international law and is unwilling to support prosecution of foreign firms who merely supply goods to the Community without conducting any business operations on its territory.

The Court rejected UK's submission and held that supply of goods from abroad is, in itself, an act establishing the jurisdiction over anti-competitive behaviour of the supplier.

The judgment must be seen as a political act, the Commission's and the Court's answer to the adoption by the US, in August 1988, of the Trade and Competitiveness Act. This Act directs the Executive to detect, and to retaliate against, "foreign unfair trading practices." It is viewed in Europe and in the Far East with apprehension, as providing a platform for further US protectionist measures.

One can be hardly surprised that the Community wishes to improve its bargaining position by providing its own Executive with a stick. The Wood Pulp judgment seems to have achieved this end.

These favourable external aspects of the judgment are not matched by its internal, constitutional significance. It is likely to increase the apprehension, which the British government seems to share, that political decisions are being left to bureaucrats and judges and there is no efficient political machinery answerable to national parliaments, and in the future, perhaps, to a European parliament, which could deal with such matters without undue delay.

Any application of national, in this case Community law, outside of territorial jurisdiction contains the seeds of a potential international conflict and of retaliation. It is not a matter for law which, by its very nature, must treat all suspects equally. A political approach is unavoidable as domestic competition rules cannot be applied exterritorially to trading partners who are stronger and prepared to resist or retaliate.

The Community's attitude to infringements of competition is therefore necessarily political and selective. Internationally, the Community challenges certain raw material suppliers while leaving in peace and even participating in other international raw material agreements, including the ill-famed International Tin Agreement. It proceeds rigourously against wood pulp suppliers whose price fixing would damage the newspaper and cardboard industry of the Community. But did not have the courage to move against Opec at the time when it hiked the price of oil up to $30 per barrel, causing havoc in the entire European economy.

The Commission can, now with the Court's blessing, attack foreign export cartels of firms operating in market economies. No such steps can be taken against the monopoly exporters of state trading countries, whose prices, quotas and terms of trade are determined by governments.

The extraterritorial enforcement of national competition rules is clearly a matter of trade policy and, so far, outside the rule of law. Consequently, such matters ought to be left to the member governments to decide in the Council of Ministers. The Wood Pulp judgment however, assigns such powers to the Commission which is, or ought to be, independent of member governments and which is only very vaguely subject to the supervision of the European parliament.

The judgment gave the Commission the power to proceed worldwide against foreign exporters concerting their prices even if they have no presence within the Community. Even the most extreme US pronouncements call for prosecution only of such foreign anti-competitive behaviour which has direct effects primarily intended to take place in the US domestic market. No such restriction seems to be contained in the European Court's judgment which authorises prosecution of *any* cartelised foreign exporter supplying the Common Market.

The Court's insistence on such extreme concept of the effects doctrine, untempered by the requirement of some business presence within the territory, is underlined by its handling of the appeal of the Pulp, Paper and Paperboard Association of the US ("KEA"). While the UK proposed that KEA could not be prosecuted because it did not operate within the EC territory, the Court allowed its appeal on different grounds. It said that the alleged infringements of EEC rules were committed by groups of members of KEA operating within its framework, but for which KEA could not be held responsible. This excursion into merits, the decision on which the Court referred to its Fifth Chamber, shows how anxious the Court was to allow the appeal without weakening its extreme formulation of the effects doctrine, and its rejection of the requirement of presence within the territory.

The Court also rejected the American exporters defence that their cartel was approved in the US under the Webb-Pomerene Act. The Commission pointed out that the US authorities were informed but did not object. The Court concluded that the Webb-Pomerene Act merely allowed export cartels but did not require their formation. This reasoning is not devoid of logic but will make it impossible to defend Community cartels abroad. Both the UK and Germany exempt export cartels from the impact of their competition rules and the Community is seen by some as one huge export cartel of agricultural produce and, until recently of steel. In the recent Laker case the European airlines argued that their allegedly predatory prices were approved by the national governments and that US courts should not interfere with policies of foreign governments. The Community itself relied on the territoriality and nationality principle in its protest against the US Export Administration Act in connection with supplies for the Siberian pipelines. The Wood Pulp judgment deprived the Community of such arguments.

This judgment also undermined the effectiveness of the competition clause in the Free Trade Agreements concluded between the Community and some other countries. It held, on the appeal of Finnish exporters, that the requirement of presenting complaints first to the Joint Committee was inapplicable as the cartel was not purely Finnish, but international.

The problems arising from the conflict of international business and national, territorially conceived legislation, are analysed in a recent book by a former British civil servant and a US attorney*. Their sound analysis and elegant presentation can be warmly recommended, but their conclusions have no bite. As I argued earlier in greater detail** there is a need to match the internationalisation of business by a corresponding internationalisation of the law. Common rules agreed, in the first instance, between the major trading nations could then be interpreted by an international tribunal, perhaps a specialised chamber of the International Court of Justice in the Hague. The US now say that this venerable and grossly underemployed institution ought to be revived. The Wood Pulp judgment may convince them that extraterritorial jurisdiction is no longer a monopoly of US courts. This may open the door to an international solution.

* *A.D. Neale and M.L. Stephens, International Business and National Jurisdiction, Oxford University Press, 1988.*

** *A.H. Hermann, Conflicts of National Laws with International Business Activity, British-North American Committee, 1988.*

Equities extend losses in late deals

NERVOUS SELLING in the London equity market gathered pace in late trading yesterday following uncomfortable developments in Tokyo and New York. Increased equity turnover bore out suggestions that domestic institutions were selling selected blue chips ahead of today's announcement of the US trade figures for August.

Leading international stocks, unsettled throughout out by a buoyant pound, reacted nervously to reports of a major bankruptcy by an unlisted company in Japan, and then to a sharp fall on Wall Street in early deals. Selling pressure was no more than moderate but both traders and institutions appeared unwilling to extend positions in the face of the batch of domestic and US news due before the end of the week. Today brings, in addition to the US trade figures, a major speech by Mr Nigel Lawson, UK Chancellor of the Exchequer, to the Conservative Party Conference. On Friday, the last day of the current equity trading Account, the market must digest the latest Domestic Retail Price Index.

Account Dealing Dates		
*First Dealings:		
Oct 3	Oct 17	Oct 31
Option Declarations:		
Oct 13	Oct 27	Nov 10
Last Dealings:		
Oct 14	Oct 28	Nov 11
Account Day:		
Oct 24	Nov 7	Nov 21

*New time dealings may take place from 9.00 am two business days earlier

Equities opened easier with one trading firm operating a minor sell programme, believed to be no more than £10m. The pricing of Racal Telecommunications required the expected £350m new cash from the market and, with the blue chips again out of favour, the market slid lower. Then, after briefly establishing a base at FT-SE 1819, the market was undermined by Wall Street's early weakness, and share prices turned down once more.

At the close, the FT-SE Index was 24 points down at 1814.3, a touch above the day's low. At Fleming Securities, Mr Steve Plag commented that the recent advance to FT-SE 1850 appeared to have been over-speculative. Seaq volume increased to 475.9m from Tuesday's 461m shares. Tensions in the City of London were reflected in fresh rumours of impending redundancies at securities firms.

The announcement by British Gas of its participation in the Tenneco assets sale was believed to open the way for LASMO's auction of its stake in Enterprise Oil – LASMO shares were the subject of hectic trading late yesterday.

The generally gloomy background cast a cloud even over the speculative issues. Allied-Lyons turned easier after disclosing a share swap deal with Suntory, the large Japanese drinks group. While commending the strategic reasons for the deal, London analysts still regarded it as a defensive move by Allied which said recently that the Bond Corporation stake of 11 per cent was unfriendly.

Consolidated Gold Fields fell again as the group's suit against Minorco's £2.9bn bid in the US courts appeared to increase the likelihood of prolonged takeover struggle.

MB opens nominees box

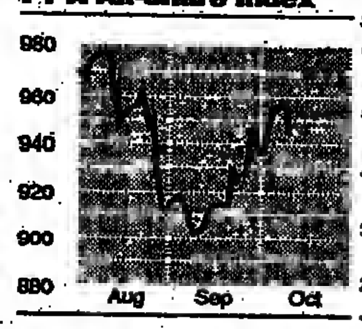
MB Group, formerly Metal Box, was one of few leading stocks to resist the market's malaise. Indications that the recent large buyer was chasing the share price touched off renewed speculation, sending the shares 6½ higher to 279½p after volume of 11m.

After the market closed it was revealed that Elders Investments, an offshoot of Elders IXL, has assembled a 5.1 per cent stake in MB, including shares held through nominees.

Recent speculation over stake-building had earlier been justified when MB announced the discovery of three nominee names, holding between them 11.6m shares, or 5.47 per cent of the equity. It said that it was seeking legal advice on the possibility of disenfranchising the shares.

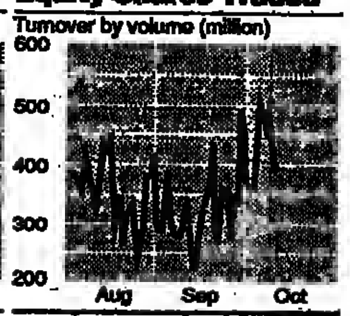
MB is an old bid chestnut, with BTR, Jefferson Smurfit and Williams Holdings all mentioned as potential predators recently. However, attention had focussed on the likelihood of a European or US competitor taking a stake in MB. Carnaud, the French canner, may be contemplating expansion via fund-raising for a bid.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)



Arnold (T & A) hotted up, with shares of the last-named slumping 65 to 495p as it looked increasingly likely that the S & P offer would win the day.

The slide came as S & P revealed it had received acceptances from holders of 43.2 per cent of T & A shares and had extended its shares-swap offer to October 24.

Rival bidder Meyer International, offering 600p a share in cash, later announced it had bought a further 2.04m T & A shares at the bid price, increasing its stake to 35.2 per cent, after Meyer holders approved the deal at the egm held yesterday.

S & P closed 4 higher at 265p, while Meyer were finally that amount down at 385p.

Heavy Lonrho trade

The plot thickened in Lonrho amid heavy business, including a crossed trade of 5m shares which, double-counted, raised the day's volume to 24m. Rumours of an impending management buy-out at 25 per share and a subsequent suspension of the group's listing abounded, diverting interest from the Scottish securities house which is believed to have bought a stake in Lonrho over the past few days on behalf of either a domestic or overseas investor.

The marketmaker concerned yesterday reduced the size of share bargains in which it was prepared to deal and adopted a much lower profile in the marketplace. Some sources believed the house had completed its buying order but forceful demand from other investment houses took the shares up higher to a close of 343p, a gain of 8 on the session.

Traders said the smart money was still on Bond Corporation building a shareholding, but most traders doubted whether the Australian group has yet reached the 5 per cent disclosable limit.

International stocks bore the full brunt of the market's diverse worries. Dealers were particularly worried about the weak US dollar and the short-term prospects for the Japanese equity market. Wall Street's soggy appearance was the signal for a bout of profit-taking by US investors. Glaxo was inevitably the hardest hit, falling 25 to 1063p in turnover of 1.5m shares.

ICI was reasonably steady, losing just 7 to 1017p amid talk that the securities house Goldman Sachs may have adopted a more positive stance on the company. There was no respite for Reckitt & Colman, however, which fell 15 to 908p, with sellers looking to take profits towards the end of the Account.

Wellcome gave up 10 to 503p on a predominance of sellers. Beecham fell 7 to 462p on rumours that the company is testing two isomers of its hypertension drug Cromakalim, and Fisons ended 3 down at 251½p.

Pearson fell 16 to 738p in turnover of 435,000 shares, following a Nomura sell recommendation last week.

The major banks took a back seat although Standard Chartered performed well ex the rights issue; the new nil-paid stock opened around 94p and progressed to 99p before settling at 96p premium. In merchant banks there was persistent demand from one particular US securities house for Leopold Joseph which jumped another 17 to 470p.

Life assurances were strongly sold, with Abbey Life finally 9½ off at 296p despite the satisfactory interim and new business figures for the third quarter. Sun Alliance were 4 higher at 1024p - "all down to a stock shortage" one dealer said.

Brewery stocks held up, buoyed by the sector's speculative issues. Allied Lyons fell 5½ to 457½p after announcing its strategic joint venture with Japanese drinks group Suntory. Allied was keen to stress that commercial advantages of the deal rather than the obvious defensive implications. Australian predator Mr Alan Bond recently increased his stake in Allied to near 11 per cent.

InverGordon rose 4 to 368p on hopes that details of the management buy-out will be announced soon. Guinness fell 3 to 327p.

There was plenty of activity in an animated buildings sector. Property development group Rush & Tompkins (R & T) soared another 24 to 327p, after Tuesday's 26 leap, as Higgs & Hill, the construction group, revealed it had taken a 14.9 per cent stake in R & T. A 9.98 per cent interest in R & T was sold on Tuesday by Overseas Strategic Holdings. Higgs & Hill said it had "no present intention of making a full bid for R & T".

Construction and housebuilders came in for a bout of profit-taking. George Wimpey dipped 8 to 274½p – "taking a breather, some of the premium has gone out of the bid stocks," said one dealer.

Alfred McAlpine, a poor market over recent weeks, staged a strong recovery, closing 15 higher at 319p with the shares aggressively bought via the inter-dealer broker screens. Elsewhere worries over competition from the Continent overshadowed BPB which retreated 13½ to 262p.

After Tuesday's intense excitement, Sears quietened down as turnover fell to 8.9m shares (25m). Dealers marked prices down, but were forced to raise them again in afternoon trading and the shares closed only 2¼ down at 138p.

The electronics majors suffered along with other big-trading stocks. Amstrad lost 6½ more to 201p with the market said to be slightly uneasy about prospects for the widely-publicised satellite dishes.

Reports that Cable & Wireless, via its Mercury subsidiary, is seeking a cellular telephone licence came as no surprise to the market: "If a cellular licence was on offer Mercury would obviously be at the front of the queue" said one analyst.

UEI fell 9 to 394p with the market discounting the 26 per cent leap in preliminary profits. Britannaia Security touched 179p before closing a net 7 higher at 177p after the almost doubled full-year profits.

Disclosure that directors of Matthew Hall are involved in discussions which could lead to a bid helped take the shares up 36 to 176p, valuing the engineering group at around £110m. Market gossip suggested an impending bid from AMEC, which combines the former William Press and Fairclough Construction firms. Matthew Hall also announced a major contract for engineering work on the £300m expansion of British Petroleum Development's Kinneil terminal.

Still awaiting culmination of management buyout plans at InverGordon Distillers, in which it holds 65 per cent, Hawker Siddeley boiled over, closing 5 off at 333p in the absence of news from a meeting at Robert Fleming, the merchant banker advising on the InverGordon deal.

Analysts' views of an undemanding rating after the good interim results encouraged support for Alexandra Workwear, up 13 at 173p, while Spring Ram, following a BZW buy recommendation, improved to 197p. Recovery hopes led to a revival in Hawtal Whiting, 12 higher at 128p, but Avis Europe reacted 8 to 338p despite highly satisfactory first-half figures.

Other losers were Johnston Group, down 15 at 390p behind the mid-term statement, and Dauphin, which fell 7 more to 128p on the Swiss deal. Redfearn, the previous day's high-flier on an intimated bid, drifted nearer the indicated offer price of 530p.

Mount Charlotte rose 4½ to 137½p as a rumour went around the market that the Kuwait Investment Office had been approached with an offer to buy its 12.5 per cent stake. Pleasurama fell 5 to 209p amid nervousness towards the end of the trading Account, while Mecca Leisure hardened slightly to 174p. Capital Radio gained 8 more to 398p, while the prolonged stock shortages in the TV sector eased somewhat and became more selective.

Trusthouse Forte was active again, ending the day a penny better at 264½p after turnover of 5.3m. Dealers described good two-way business and noted activity in the traded options market, but said there was no specific story attached.

Among Property stocks, Hammerson "A" shares fell just 6 to 652p in tunover of just under 1m, while dealers reported strong buying interest in the Ordinary shares which eased 1 to 693p. The Ordinary shares carry most of the voting rights and dealers speculated that a stakebuilding operation might be underway.

British Gas shares were barely altered in the wake of the $194.5m purchase of most of Tenneco's overseas oil and gas interests, a move regarded as good for Gas – "quality assets at reasonable prices" said one analyst.

The more volatile oil stocks were given a thorough shaking by the slide on Wall Street and lower crude oil prices, bnt most closed above the day's lowest levels. LASMO were heavily sold in the late afternoon and dropped to around 507p before steadying to close a net 14 down at 511p; there remained, however, a conviction in the market that another raid or even a full bid for LASMO could be imminent. Enterprise fell 12 to 601p having dipped below the 600p mark at one point.

Turnover in traded options continued to be boosted by dealings in Sears, a current bid favourite in market chat, totalling 32,060 contracts, made up of 22,104 calls and 9,956 puts. Turnover on the FT-SE 100 index showed a further recovery, to 4,195 matched contracts, comprised of 1,436 calls and 2,759 puts. Sears turnover came to 3,808 calls and 443 puts.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 23

RTG set fair

Racal shares came under pressure and slipped 6 to 311½p on turnover of 3.5m as the market registered minor disappointment with the details of its forthcoming flotation of a 20 per cent stake in Racal Telecommunications Group (RTG) later this month. Dealings in RTG are expected to commence on October 26.

The RTG stock will be offered at 170p a share to raise some £340m for Racal, valuing the whole of RTG at £1.7bn. The market had been expecting a price of 175p a share, compared with the range of 155-185p given in the pathfinder prospectus issued a month ago.

Dealers and analysts generally applauded the issue price: "They are not being greedy, just sensible given the current state of markets around the world" commented one trader. The underwriting for the RTG flotation was completed yesterday by Hoare Govett; "It went extremely well. Demand was more than could be satisfied" the securities house commented.

Builder's battle

The battle between Sandell & Perkins (S & P) and Meyer International to win control of builders merchants Travis &

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (29)

[illegible] B, ELECTRICALS (8) Hoskyns Grp., Kewill Systems, MTL Instruments Grp., Plessey, Thermal Scientific, ENGINEERING (1) A. Cohen, FOODS (2) Appleby Westward Grp., Clifford's Dairies, INDUSTRIALS (8) AGA AB, Hughes (HT), Nu-Swift, RKF Grp., Scott Robertson, Trellus, LEISURE (1) Capital Radio, NEWSPAPERS (1) Intl. Thomson, PAPERS (1) Usher Walker, SHIPPING (1) Turnbull Scott, TRUSTS (4) Derby Tst. Inc., European Assets, SPLIT Inc., London Entertainments, OILS (1) Ex.Co Louisiana, THIRD MARKET (1) LGW.

NEW LOWS (99)

[illegible] Shipley, MCorp (M), STORES (2) [illegible] of Lerose, Ratners, ELECTRICALS (1) ABB Kent, ENGINEERING (3) Hobson, Powerscreen Intl., FOODS (1) Acatos & Hutcheson, INDUSTRIALS (4) Amer Grp., Harding Grp., Tamaris, Willa's Cv. Rd. PL, PAPERS (1) KLP Grp., PROPERTY (3) Cussins Prop. Grp., Kentish Prop., TRUSTS (1) Siam Fund, OILS (7) Caspen Oil, Kelt 8pc Cv. Pf., Magnet Group, Norsk Hydro, Sandpiper Oil, Total-Cie, Tusker Res., MINES (5) Bracken, ACM, Jason Mining, Newmont Pacific, Anglo-Dominion, THIRD MARKET (1) Caldwell Inv.

FINANCIAL TIMES STOCK INDICES

	Oct 12	Oct 11	Oct 10	Oct 7	Oct 6	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	88.84	88.94	89.02	88.74	88.47*	85.65	91.43 (18/4)	86.28 (2/8)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.47	97.34	97.01	96.87	96.70	91.67	98.67 (25/5)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1471.9	1487.2	1490.3	1490.4	1491.5	1834.7	1514.7 (8/8)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	176.0	181.8	177.8	175.9	174.2	438.2	312.5 (7/1)	162.7 (22/9)	734.7 (15/2/83)	43.5 (26/10/71)

	Oct 12	Oct 11	Oct 10	Oct 7	Oct 6	Year Ago
Ord. Di. Yield	4.71	4.65	4.64	4.64	4.67	3.28
Earning Yld %(full)	11.87	11.73	11.70	11.71	11.77	8.06
P/E Ratio(Net)(☆)	10.21	10.32	10.35	10.35	10.29	15.17
SEAQ Bargains(5pm)	22,614	24,329	24,941	23,989	24,721	35,468
Equity Turnover(£m)†	-	998.39	953.21	1534.29	1101.69	1735.08
Equity Bargains†	-	25,317	28,212	24,328	25,165	43,062
Shares Traded (ml)†	-	394.3	407.0	492.5	465.5	673.2

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1482.4	1481.8	1483.0	1482.7	1481.2	1480.1	1475.7	1474.9

DAY'S HIGH 1483.7 DAY'S LOW 1469.9

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, ☆Nil 10.13 †Excluding intra-market business. *Correction.

S.E. ACTIVITY

Indices	Oct 11	Oct 10
Gilt Edged Bargains	120.5	118.5
Equity Bargains	164.0	169.8
Equity Value	2018.0	1926.7
5-Day average		
Gilt Edged Bargains	111.2	107.7
Equity Bargains	160.5	156.5
Equity Value	2407.3	2398.5

● London Report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

APPOINTMENTS

Changes at Guinness Brewing

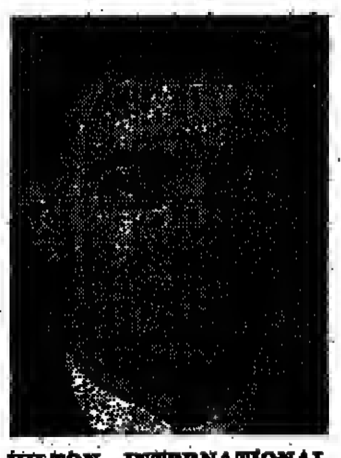
Mr Alfons Walser, formerly technical director of Guinness Brewing Worldwide and managing director of the Guinness subsidiary in Northern Ireland, has been appointed managing director of GUINNESS BREWING INTERNATIONAL.

Mr Peter Banner, previously regional director for Nigeria and Ghana, becomes managing director of Guinness Malaysia. Mr Nigel Salmon, previously regional operations director, and formerly managing director of Guinness Nigeria and Guinness Ghana, succeeds Mr David Hampshire as managing director of Guinness Cameroun. Mr Hampshire returns to London to become regional director for Africa and the Indian Ocean.

Mr Malcolm Wych, sales director of the Guinness Brewing company in Great Britain since 1984, has been appointed regional director for the Far East, Australasia and the Caribbean.

Mr Paul Gilham, previously general manager for the on-trade marketing with Guinness Brewing in Great Britain, has been appointed marketing director. He succeeds Mr Paul Rutherford, who has become director and general manager of the Guinness sales and marketing subsidiary in Malaysia.

Mr Andrew Higginson, financial controller, has become finance director.



HILTON INTERNATIONAL has appointed Mr Paul Taylor as director of development and technical services, UK and Benelux. He was development controller for Ladbroke Hotels.

■ The AUTOBAR GROUP has appointed Mr Michael Davey as group finance director. He was finance director of the horticulture division of Fisons.

■ PPP (PRIVATE PATIENTS PLAN) has appointed Dr Jonathan Boyce as general manager (medical department).

■ Mr Ray Peedle has been made deputy managing director of CARADON TWYFORDS, the bathroom company.

■ Mr Bamber Gascoigne has joined the board of the ROYAL OPERA HOUSE, COVENT GARDEN.

■ Mr Trevor Green, chairman and managing director of Rof International, has been made a non-executive director of SHEPLEY ENGINEERS.

■ Mr Ian G. Newton has joined SAMAC INTERNATIONAL as finance director and company secretary. He was finance manager at British Steel Corporation. Mr W.G. Shaw, formerly group finance director at British Airports Authority, has become a non-executive director.

■ DHL has appointed Mr Robert M. Kuijpers chief executive officer for Continental Europe, the UK and Africa. He joins from H.J. Heinz-Europe where he was managing director for Benelux, France and Germany.

■ Mr Keith Howell has been promoted to director of finance at MARLEY. Mr Mike Moxon has been given main board responsibility for all the UK and Continental European companies.

■ Following the acquisition of a 22.02 per cent shareholding in Westland by GKN, Mr Alexander Daly, GKN's managing director-defence, has joined the board of WESTLAND. He replaces Dr G.C. Boffeta of Fiat who has resigned.

■ Mr T.G. Kemp, an associate director, has become a director of JAMES LATHAM.

■ Mr R.A. Smythers has been appointed managing director of WILLIAM McGEOCH & CO (BIRMINGHAM), a member of the Bowthorpe Holdings group. He was director of European support operations for Fisher Controls.

■ J.F. DONELON & CO has promoted Mr Steve Fellowes to commercial director.

■ Mr David R. King has joined the board of DYNAMIT NOBEL (UK).

■ Ms Judy Atchison has been appointed commercial director of RHM FOODS' soft drinks group. She moves from another RHM company, British Bakeries, where she was marketing director.

■ LLOYDS BANK has appointed Mr Peter Brunsden as assistant general manager, bank relations, international banking division in succession to Mr Geoffrey Higham who has retired. Mr Bob Long succeeds Mr Brunsden as chief manager, bank relations.

■ At PROVIDENCE CAPITOL LIFE ASSURANCE Mr John Baker has become finance director and Mr Alan Parsonson has been made general manager of Providence Capitol Fund Managers.

■ Mr Ralph Baber has been appointed managing director of CAL FUTURES and CAL INVESTMENTS. Mr M. Mason-Williams is made company secretary of both companies.

LONDON SHARE SERVICE

AMERICANS – Contd

1988 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
28¾	19½	Texaco $6.25	26¼	–⅛	$3.00	–	6.7
27⅞	22¾	Texas Instr. $1	23½	+⅛	72c	–	1.8
70½	43¼	Time Inc. $1	49⅞	–1	$1.00	–	0.0
21½	15⅞	Transamerica $1	20¼	–⅛	$1.84	–	5.3
20¼	14½	TRINOVA Corp	16½	–⅛	64c	–	2.3
19	15⅛	USX $1	15¼	–⅛	$1.20	–	4.5
24½	17⅞	Utd. Technologies	23½	–⅛	$1.60	–	3.9
34⅝	26¼	US West	34½	.....	$3.52	–	6.1
24⅞	16⅞	Waste Management $1	24½	–⅛	48c	–	1.2
16⅞	12⅞	Whirlpool $1	15¼	–⅛	$1.10	–	4.2
33⅞	18¼	Woolworth $3½	32¼	–⅛	$1.64	–	3.0

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

LONDON SHARE SERVICE

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress
- ✱ Not comparable
- ◆ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ✱ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs. ✱✱ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z. Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+/-
Albany Inv 20p....γ	71xd	
Craig & Rose £1....γ	690	
Finlay Pkg. 5p....γ	85xd	
Holt (Jos) 25p....γ	£11¼xd	−⅛

IRISH

Stock	Price	+/-
Cap. 8½% Ln. 1991	£99	
9pc Cap Ln. 1996	£102¼	
Fin. 13% 97/02	£121⅝	
Arnotts....γ	395	+3
Carrol Inds....γ	160	
Grafton Grp....γ	134	
Hall (R. & H.)	155	
Helton Hldgs....γ	68	+3
Irish Ropes....γ	160	−2

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord	21
Cadburys	32
Charter Cons	30
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	24
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	50
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	30
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	30
Racal Elect	32
RHM	30
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	68
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property	
Brit Land	30
Land Securities	52
MEPC	52
Peachey	50

Oils	
Brit. Gas	15
Brit Petroleum	24
Burmah Oil	50
Charterhall	3
LASMO	40
Premier	7½
Shell	45
Ultramar	26

Mines	
Cons Gold	95
Lonrho	28
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

COMMODITIES AND AGRICULTURE

Zinc climbs to record on London Metal Exchange

By Kenneth Gooding, Mining Correspondent

THE LONDON Metal Exchange price of zinc for delivery in three months reached a record $1,395 yesterday to coincide with pnblication of two important studies whicb predict a bnoyant fnture for base metals.

"The pendulum is now swinging away from precious metals back to base metals. For many mining companies the margins that can be obtained from their base metal activities could exceed that now being obtained from mining gold," says Mr David Williamson, director of metals and mining research at Shearson Lehman Huttoo, in his company's review.

Meanwhile Rudolph Wolff, the metal trading group, suggests that the current squeeze on interest rates will have a marked effect on consumer spending with obvious implications for commodity prices.

"However, there are mitigating circumstances that may help to cushion the expected fall in metal prices. Firstly, primary inventories are low. Secondly, the cyclical lag of six to nine months between economic activity and metals consumption should help to soften the base metals industry from a fall in demand.

"Thus, one would expect to see base metals prices continue to weaken, although a return to the former depressed levels is extremely unlikely," says Wolff.

In its study, produced, like Shearson's review, to coincide with London's "metals week" which attracts prodncers, consumers and traders from all over the world, Wolff suggests that the current euphoria in the base metals market is being driven mainly by copper.

However, so far this week zinc has stolen the limelight. Traders said falling LME stocks and the possibility of an indefinite strike by Peruvian miners from October 17 helped boost the price again yesterday.

After touching $1,395 a tonne at one point, the three-month price eased a little to close at $1,389, up $15 on the day.

Wolff suggests that the tight supply situation will continue throughout 1989 and the zinc price will average $1,280 next year.

The Shearson analysis indicates that the zinc price, adjusted for inflation, has remained relatively stable since 1978 and, in the first half of 1988, was, if anything, "a little on the low side" in this comparison.

Mr Williamson says demand for all base metals will continne at either record or near-record levels hut increases in supply will overtake demand and lead to a modest rise in stocks.

"The effect will be to cool down the recent base metal bull market and lead to a general easing of prices. Nevertheless, we do not believe that prices will fall, in either nominal or real terms, to the levels seen between 1982-86. Rather we believe that, because of good demand, prices will maintain levels which will ensure good returns for the mining industry."

In its forecasts, Wolff predicts that the LME three-month aluminium price will average 90 cents a lb in 1989, compared with 105 cents this year, while copper will average 88 cents a lb next year, against 100 cents in 1988.

Rubber fall surprises traders

By Wong Sulong in Kuala Lumpur

RUBBER PRICES are now back to where they were at the start of tbe year, after falling sharply in response to a lack of buying interest in major markets in recent weeks.

Just as the sharp price increases in April and May confounded the market, the sudden slide in prices during the past week has caught traders by surprise.

On the Kuala Lumpur Rubber Market, RSS No 1, the hedging grade, which soared to an eight-year high of 400 Malaysian cents a kilogram in May, closed yesterday at 279 cents, down 21 cents in the past week alone.

The fall would have been even greater but for the weakness of the Malaysian dollar. On the London physical market the spot price for RSS No 1, which peaked at 89p a kilogram four months ago, is down to 56.25p, about 6p below the level at the start of the year.

The International Natural Rubber Organisation's five-day moving average, widely regarded as the world's average rubber price, has shown a similar pattern. It broke through the Inro "selling" level of 270 Malaysian/Singapore cents a kilogram in late May, and strengthened further to 323 cents in early June. Its subsequent retreat took it below the buffer stock "must sell" level of 242 cents at the end of last month and it is now down to around 233 cents – is still within the Inro upper intervention level where the buffer stock manager has to be net seller.

The buffer stock manager is believed to have sold 320,000 tonnes from his 370,000 tonne stockpile since September last year, and traders attribute the current market weakness to his heavy sales during May and June.

Even so, most traders say the recent price falls have been too sharp. Many had expected that the price would consolidate around 300 cents a kilogram.

"Contrary to past experience, the traditional buying interest from western consumers after the summer holidays did not materialise, probably dne to the fact they are still digesting the buffer stock deliveries," said a Malaysian Rubber Exchange official.

Eastern bloc countries are reported to have exhausted their budgets for rubber purchases because of high prices earlier in the year, and are staying away.

Also, the heavy rains in Malaysia and South Thailand during August did not appear to have affected production as severely as expected.

"The signals we are getting are quite confusing. Demand remains fundamentally strong: tyre sales in Europe and the United States are buoyant. But rubber supply from producing countries could also have gone up significantly because of higher prices," said the MRE official.

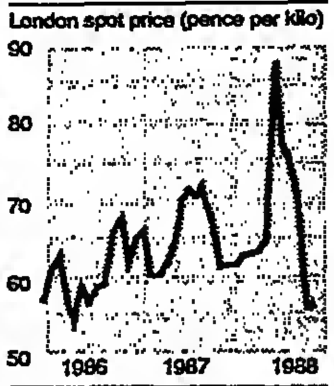
Malaysian traders say the current market tone is weak and unless fresh buying interest emerges, prices are expected to weaken further.

The only rubber grade that is holding steady is latex concentrate (around 470 cents a kilogram), because of demand from manufacturers of surgical gloves and condoms.

Malaysian plantation owners say current prices are still considered to be lucrative for the industry.

Rubber

London spot price (pence per kilo)



Increase in coffee pact quota predicted

By David Blackwell

AN ADDITIONAL 2m bags of coffee is likely to be added to the International Coffee Organisation's 56m-bag total world export quota in the next six weeks, according to E.D. & F. Man, the London trading house.

The first increase of 1m bags would be triggered on October 25 if the ICO 15-day average of the composite daily price for coffee remained above 114.40 cents a lb. Another 1m bags would be added if the price was still above that level 15 working days later.

"We feel it is probable the 15-day average will be at or above 114.40 cents on October 25 and most likely for a second increase 15 market days after," Man says in its latest report on the coffee market.

It is the first to speculate pnblicly on the likely development of the export qnota since the ICO talks ended with a complex deal in the early hours of Sunday October 2.

Yesterday coffee fell sharply on the London Futures and Options Exchange (Fox), with the three-month robusta price closing £34 down at £1,130 a tonne.

Dealers said that the market was finely balanced and trading in a narrow range because people were still uncertain about how things were likely to develop under the organisation's new qnota rules.

The latest ICO average indicator price available, for October 11, was 115.25 cents a lb, although the daily price was below the trigger level at 114.07 cents a lb.

Man feels that 58m bags – the total export quota if the two increases are made – "is more coffee than the consumer market will need in the light of stocks which may be above the norm."

Nevertheless it suggests that prices are likely to rise until the end of the year, "not because of the inadequacy of quota hut because this is likely to he concentrated in the hands of the arabica producers, many of which will not have the coffee available to exercise it."

The two prospective qnota increases will be allotted to arabica coffees, which are in greater demand than robustas, if the ICO 15-day average prices for arabicas is more than 25 per cent higher than that for rohustas. Yesterday the arabica premium was 30.7 per cent.

Man predicts that any undershipment by arabica producers will be carried into the second quarter of the coffee year,

Klöckner caught out by oil fall

Steven Butler on the West German group's heavy trading losses

THE HEAVY losses in oil trading declared yesterday by Klöckner, the West German trading group, came as little surprise to the oil market.

Klöckner says it has accumnlated DM600m to DM700m of paper losses, although this could be mitigated depending on how the market moves.

The company had little to say yesterday about precisely bow the losses were made, although traders who deal with the group were able to provide some details.

Klöckner has been active in oil trading for many years, and is thought to have taken losses in 1986, when the plunge in oil prices led to defaults among traders on the Brent forward market.

Traders say the company booked and maintained a big long position, buying oil in the forward Brent market, over the past year.

Prices were sliding for most of that time, however, and rather than take the losses as contracts came due Klöckner rolled them forward, evidently hoping the market would recover.

This in itself involved taking a small loss each month, since for most of the year the market has been in contango, meaning that spot oil prices were below forward prices.

The full loss would evidently have to be faced were Klöckner now to unwind its positions, and this was a question which yesterday hung over the market.

The sudden increase in the size of Klöckner's position in the market was considered unusual by traders, and it had been suspected that it might not have been trading entirely on its own account.

It has become rare for traders in the forward oil markets to take big one-way positions, which essentially amounts to placing a bet on which way oil prices will move. This can be dangerous, as Klöckner discovered, because markets react strongly to the highly unpredictable political manoeuvrings of the Organisation of Petroleum Exporting Countries.

Instead, many oil traders have adopted tha more sophisticated trading strategies developed by the big Wall Street commodity traders, who moved into the Brent forward market in a big way following the 1986 price collapse.

These strategies involve taking advantage of the relative price movements among the forward contract months. Pure long or short positions are often offset by opposite trades which will mitigate any potential loss.

A question in many traders' minds was why Klöckner, which must have been aware of the risks involved, booked such a big long position.

The logical answer is that Klöckner thought it knew something about developments in the market that other traders did not know, and this has raised suspicions, which cannot be verified, of an Arab connection.

It would not be the first time this year that a big player in the market has been severely burned. Many of the Japanese trading houses, which had become more and more active since 1986, bet the wrong way on prices last December, when an Opec ministers' meeting failed to come up with a firm production accord. They took their losses and have now virtually abandoned the market.

Transworld Oil was hurt badly after it cornered the market for January Brent oil. It took delivery on over 40 of the available cargoes that month and was forced to sell them after the price fell heavily. Losses of hundreds of millions of dollars forced the company to trim its operations sharply.

The Organisation of Petroleum Exporting Countries said yesterday that its price monitoring and long-term strategy committees would meet in Madrid on October 20. The meeting will be attended by oil ministers from Indonesia, Saudi Arabia, Algeria, Venezuela, Nigeria, Kuwait, Iran, and Iraq.

EC announces plans to cut beef and sheep spending

By Tim Dickson in Brussels

AFTER MONTHS of internal deliberation, the European Commission finally came forward yesterday with plans for curbing expenditure in the beef and sheep regimes, plus a proposal for dealing with the sensitive question of New Zealand butter.

The amounts of beef coming into the Community's intervention stores have been running at a high level for some time, with 450,000 tonnes a year recorded between 1983 and 85, 578,000 tonnes in 1986, 537,000 tonnes in 1987 and 300,000 tonnes this year so far, ahead of the critical autumn period. Total stocks at 700,000 to 750,000 are currently well up on a year ago thanks, at least in part, to the widespread slaughtering by dairy farmers trying to keep within their quotas.

"The system has become a permanent outlet", a Commission official said yesterday. "It should be a safety net."

The cost of the sheep regime, meanwhile, is considered equally unacceptable. The Community does not step into the market and buy unwanted output in the way that it does for beef producers but the Ecu 925m (£600m) which the sector is likely to cost the Community budget this year in premiums is twice last year's figure and more than 3 per cent of the agriculture total.

The following are the main points of the proposals:

● The amount of beef which the Community will in future be prepared to buy in any one year will be fixed at 200,000 tonnes except in exceptional circumstances (to be defined by the Commission) or when there is a significant reduction in market prices.

● The market prices which will trigger intervention buying of beef have been cut from 91 per cent to 88 per cent of the intervention price in the case of the Community average, and from 87 per cent to 84 per cent in the case of the price in national markets.

● Of the four kinds of premium currently payable the calf premium payable on the birth of a calf in Italy and the variable slaughter premium paid in Great Britain will be phased out. The suckler cow premium will be increased from Ecu24 to Ecu40 per head and the special premium for male cattle (which will be extended to Great Britain and Italy) will rise from Ecu 25 to Ecu 40 per head. The number of cattle to qualify for this payment will go up from 50 to 75 per farm.

● Many of the commission's proposals for sheepmeat were foreshadowed in a major policy paper on the sector over a year ago. Most significantly, however, Brussels is sticking with its promise to phase out the popular variable slaughter premium in Great Britain, an aim which it hopes to achieve fully by 1993.

Thereafter the normal system of direct ewe premium payments will apply through much of the Community with Great Britain joining the rest of Northern Europe and only Italy, Greece, Spain and Portugal left in receipt of special treatment.

● Curbs on sheepmeat imports, notably from New Zealand, are an important *quid pro quo* as far as farmers are concerned for the changes proposed in the community's sheep sector – as well as those already agreed earlier in the year. The Commission yesterday endorsed the figures already provisionally negotiated between Mr Frans Andriessen, the EC's Farm Commissioner, and Mr Mike Moore, New Zealand's Overseas Trade Minister, for a total annual quantity of 205,000 tonnes of lamb and a price surveillance system "assuring notably a relation of price balance between imported products and indigenous products."

The Commission also approved Mr Andriessen's proposal to cut the New Zealand butter quota from 74,500 tonnes this year to 55,000 tonnes by 1992 but at the same time to reduce the import levy

Moscow seeks grain pact extension

THE SOVIET Union has handed U.S. officials a draft proposal which calls for a one-year extension of the long-term grain agreement between the two countries with a flexible minimum of either 9m or 10m tonnes, but the US has not yet agreed, reports Reuter.

An official who will be involved in negotiations, scheduled to start in London, tomorrow, said the Soviet proposal would commit Moscow to buying 4m tonnes of wheat and 4m tonnes of maize from the Americans over the next year.

The Soviet Union would also undertake to purchase either 2m tonnes more grain, for a total of 10m tonnes, or, substitute 1m tonnes of soya beans and/or meal, lowering the minimum to 9m tonnes.

The previous agreement, which expired on September 30, called for the Soviet Union to buy a minimum of 4m tonnes wheat, 4m tonnes maize and another 1m tonnes of either grain or soyabeans, making a total of 9m tonnes per year.

The Soviet Union's proposal also suggests that after the one-year extension ends, it should be replaced by a five-year accord.

The Soviets would pledge to buy a total of 20m tonnes of feedgrains and 20m tonnes of wheat over the five-year period.

The US had earlier suggested that the five-year minimum should be 50m to 55m tonnes.

WORLD COMMODITIES PRICES

LONDON MARKETS

GOLD prices rose in the afternoon on shortcovering. Dealers said the weakness of the dollar against the yen prompted some buying from Japanese operators. The strength of silver was also a supportive influence. Bullion closed at $409.50 an ounce, a rise of $3.25, after meeting resistance as it approached $410. But dealers said the market appeared to be on an upward trend, with some operators setting an upside objective of around $416. Cocoa prices recovered on good manufacturer buying in the afternoon to close mixed. The market was earlier depressed by talk of an Ivory Coast crop forecast of around 750,000 tonnes for the coming year. Rumours also persist of an Ivory Coast block deal of old and new crop cocoa with a French operator. Biffex freight futures rallied after the Baltic Freight Index rose by 11 points to 1,305.

SPOT MARKETS

		+ or -
Crude oil (per barrel FOB)		
Dubai	$10.22-0.28z	+.125
Brent Blend	$12.35-2.45z	-0.02
W.T.I. (1 pm est)	$13.64-3.67z	+0.25
Oil products		
(NWE prompt delivery per tonne CIF)		
Premium Gasoline	$162-165	+7
Gas Oil	$110-111	
Heavy Fuel Oil	$56-58	+1
Naphtha	$123-124	+1
Petroleum Argus Estimates		
Other		
Gold (per troy oz)♦	$409.50	+3.25
Silver (per troy oz)♣	630c	+5
Platinum (per troy oz)	$517.0	-1.5
Palladium (per troy oz)	$121.50	+1.15
Aluminium (free market)	$2265	+20
Copper (US Producer)	132¾-37½c	+4¾
Lead (US Producer)	39c	
Nickel (free market)	520c	-10
Tin (European free market)	£4200	-30
Tin (Kuala Lumpur market)	18.3r	
Tin (New York)	338.5c	+1.0
Zinc (Euro. Prod. Price)	$1350.0	
Zinc (US Prime Western)	69½c	
Cattle (live weight)†	107.89p	-1.16*
Sheep (dead weight)†	141.22p	-11.2*
Pigs (live weight)†	73.69p	+2.36*
London daily sugar (raw)	$249.4x	+1.6
London daily sugar (white)	$255x	+2
Tate and Lyle export price	£253.0	+0.5
Barley (English feed)	£110.5z	
Maize (US No. 3 yellow)	£127v	
Wheat (US Dark Northern)	£120.5v	
Rubber (spot)♥	56.25p	-0.75
Rubber (Nov)♥	62.25p	-1.25
Rubber (Dec) ♥	62.75p	-1.25
Rubber (KL RSS No 1 Nov)	279m	-4
Coconut oil (Philippines)§	$557.5x	+7.5
Palm Oil (Malaysian)§	$430v	
Copra (Philippines)§	$380	
Soyabeans (US)	$192.5	-1.0
Cotton "A" index	58.05c	-0.05
Wooltops (64s Super)	675p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Nov. x-Oct/Nov. w-Nov/Dec. v-Oct/Dec. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♦Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Dec	770	765	770 744
Mar	766	772	772 753
May	775	784	781 766
Jul	790	795	794 776
Sep	803	802	807 790
Dec	843	840	842 825
Mar	860	866	866 855

Turnover: 5642 (7272) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Oct 11: 970.65 (1814.86) :10 day average for Oct 12: 953.98 (1227.84) .

COFFEE £/tonne

	Close	Previous	High/Low
Nov	1130	1169	1162 1120
Jan	1130	1164	1160 1129
Mar	1126	1156	1148 1123
May	1114	1152	1141 1114
Jly	1113	1140	1125 1110
Sep	1113	1141	1128 1120
Nov	1115	1132	

Turnover: 5388 (2220) lots of 5 tonnes
ICCO indicator prices (US cents per pound) for Oct 11: Comp. daily 114.07 (113.59) . 15 day average 115.25 (115.22).

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Dec	226.60	221.00	230.00 224.00
Mar	220.80	211.80	221.00 211.00
May	216.40	208.40	216.20 207.00
Aug	213.80	206.20	214.00 207.40
Oct	212.40	205.00	211.80 205.20
Dec	211.80	206.00	

White	Close	Previous	High/Low
Dec	286.00	281.80	
Mar	253.00	244.00	252.60 244.00
May	253.00	245.00	250.00 246.00
Aug	254.00	245.00	
Oct	255.00	243.00	250.00 244.00
Dec	253.00	243.00	250.00
Mar	253.00	243.00	

Turnover: Raw 2621 (3336) lots of 50 tonnes. White 1511 (2147).
Paris- White (FFr per tonne): Dec 1608, Mar 1582, May 1595, Aug 1585, Oct 1585, Dec 1585

GAS OIL $/tonne

	Close	Previous	High/Low
Nov	113.25	111.75	113.50 111.00
Dec	114.50	113.25	115.00 112.75
Jan	116.00	115.00	116.25 113.75
Feb	116.00	115.00	116.00 114.00
Mar	115.00	114.50	115.25 114.00
Apr	114.00	113.00	113.50 112.00

Turnover 5972 (7000) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Nov	107.40	107.40	107.70 107.25
Jan	110.45	110.80	110.65 110.45
Mar	113.25	113.35	113.65 113.25
May	116.25	116.45	116.70 116.20
Jul	117.80	117.95	117.80
Sep	102.25	102.20	102.25
Nov	105.00	105.00	105.00

Barley	Close	Previous	High/Low
Nov	105.50	105.10	105.60 105.25
Jan	108.70	108.40	108.90 108.70
Mar	110.70	110.60	110.95 110.70
May	112.45	112.25	112.55 112.45
Sep	99.00	99.15	99.00
Nov	101.75	101.75	101.75

Turnover: Wheat 204 (252) . Barley 178 (98) .
Turnover lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 7,425 tonne
Cash	2265-70	2270-5		2260-80		
3 months	2215-20	2215-20	2240/2205	2225-6	2220-5	16,142 lots
Aluminium,99.5% purity (£ per tonne)						Ring turnover 650 tonne
Cash	1295-305	1295-8		1305-10		
3 months	1260-70	1260-70		1270-5	1260-70	32,789 lots
Copper, Grade A (£ per tonne)						Ring turnover 35,500 tonne
Cash	1614-6	1612-4	1620/1623	1621-2		
3 months	1535-6	1537-8	1546/1521	1540.5-1.5	1545-6	63,291 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1560-75	1565-75		1570-80		
3 months	1500-10	1505-15		1505-15		35 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	631-4	625-8		623-4		
3 months	644-7	638-40		635-8		435 lots
Lead (£ per tonne)						Ring turnover 5,850 tonne
Cash	373-4	373-5	374.5/374	374-5		
3 months	376-7	375-7	380/376	377-8	378-9	10,259 lots
Nickel ($ per tonne)						Ring turnover 366 tonne
Cash	11600-700	11600-700	11500/11400	11400-50		
3 months	10500-50	10300-400	10500/10450	10490-500	10400-500	5,863 lots
Zinc ($ per tonne)						Ring turnover 78,550 tonne
Cash	1500-5	1490-5	1505/1500	1500-5		
3 months	1388-90	1373-5	1395/1385	1386-8	1387-90	16,969 lots

POTATOES £/tonne

	Close	Previous	High/Low
Nov	66.0	61.0	
Feb	71.0	72.5	
Apr	93.8	94.7	94.7 93.5
May	104.8	105.0	104.5
Nov	83.0	83.0	

Turnover 128 (107) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Dec	176.80	176.50	176.50 176.00
Feb	185.00	185.80	
Apr	185.00	185.50	184.00
Jun	177.00	177.50	
Aug	172.00	173.00	

Turnover 75 (58) lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Oct	1357	1342	1357 1350
Jan	1410	1400	1420 1403
Apr	1474	1458	1475 1460
Jul	1325	1315	1325 1315
Oct	1335	1323	1335 1325
BFI	1305	1294	

Turnover 352 (280)

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	409¼-409¾	235½-237
Opening	406¼-406¾	233¼-233¾
Morning fix	404.7	234.473
Afternoon fix	408.4	236.049
Day's high	409¾-410	
Day's low	404¼-405	

Coins	$ price	£ equivalent
Maple leaf	421-426	243-246
Britannia	421-426	243-246
US Eagle	421-426	243-246
Angel	417-422	241-244
Krugerrand	408-412	236-238
New Sov.	96¼-97¼	55½-56¼
Old Sov.	96¼-97¼	55½-56¼
Noble Plat	529.95-535.85	306.39-310.05

Silver fix	p/fine oz	US cts equiv
Spot	362.10	626.50
3 months	373.25	638.45
6 months	383.25	652.40
12 months	403.65	680.35

WOOL

Australian wool prices have continued to rise, though rather more gradually than last week. There is no lack of demand for wool stemming from the Far East and several other areas, and the wool situation is assessed as one of potential as well as present strength. The trading wool consuming countries of the EEC, including the UK, are not in the vanguard of this improvement. There may be no recession, but anxieties still run a little to that direction. A very welcome and significant improvement in business on the Bradford top market in the past couple of weeks has taken quoted prices appreciably higher. More important is the higher basis established in trading, and longer order books. 58s super are around 505p per kg.

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Nov	Jan	Nov	Jan
2150	147	172	28	118
2250	84	125	62	154
2350	42	88	122	225
Copper (Grade A)	**Calls**		**Puts**	
2550	246	190	18	128
2700	134	122	62	207
2850	60	75	127	307

US MARKETS

A SHARP decline in the dollar and news about a greater than expected trade number helped metal markets rally, reports Drexel Burnham Lambert. Gold rose 3.8 while silver gained 12 cents. Platinum trading was more active than normal as commission house buying added strength. Copper trading was choppy but the market remained firm closing up 20. In the softs, sugar gained 40 points on news that refined sugar is scarce in China. Coffee prices declined almost 200 based mostly on the stronger sterling. Cocoa recovered a little by advancing 29 points in December. In the meat markets, pork belly prices closed higher for the second straight day. Live cattle and hogs were even firmer as demand looks to be increasing. The grain markets all had a quiet day as many await the crop report. The cotton market sold off late in the day as commission houses were seen liquidating their long positions before the report. In energy trading, crude oil prices were steady until news came out of a US embassy being bombed. On that note, prices rallied 25 cents.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Oct	408.4	404.4	409.0	405.6
Nov	410.4	406.1	0	0
Dec	412.2	408.4	413.0	408.5
Feb	417.4	413.5	421.0	414.7
Apr	422.9	418.9	425.5	420.5
Jun	427.8	423.9	431.2	425.8
Aug	432.8	429.2	0	0
Oct	438.0	434.7	0	0
Dec	444.3	440.0	446.5	441.5

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	520.4	515.1	527.0	515.0
Jan	519.4	510.1	527.5	512.0
Apr	522.4	513.9	530.0	517.0
Jul	526.4	518.2	532.0	522.0
Oct	530.4	524.0	536.0	528.0
Jan	534.9	528.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Oct	630.0	620.0	631.0	631.0
Nov	633.0	623.0	0	0
Dec	638.0	626.0	641.0	627.0
Jan	644.4	632.4	640.0	640.0
Mar	650.5	638.5	662.0	647.0
May	664.0	652.0	666.0	654.0
Jul	674.4	662.5	680.0	680.0
Sep	684.4	672.6	690.0	690.0
Dec	699.9	687.8	705.0	693.0
Jan	704.8	692.8	0	0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	129.30	129.50	129.40	129.50
Nov	125.30	123.80	0	0
Dec	120.30	120.10	121.80	118.80
Jan	115.90	116.20	117.90	115.90
Mar	107.00	107.20	109.00	106.50
May	102.50	102.80	103.90	102.00
Jul	99.40	99.70	100.70	99.00
Sep	97.60	97.90	98.00	97.00
Dec	96.30	96.70	98.00	96.90

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Nov	13.79	13.55	13.85	13.42
Dec	13.42	13.20	13.46	13.07
Jan	13.37	13.21	13.40	13.20
Mar	13.42	13.25	13.43	13.21
Jun	13.45	13.31	13.49	13.25

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Nov	3990	3906	4000	3880
Dec	4060	3992	4060	3970
Jan	4115	4035	4130	4035
Feb	4110	4053	4120	4050
Mar	4000	3938	4020	3925
Apr	3805	3756	3805	3745
May	3690	3656	3705	3655
Jun	3600	3616	3630	3595

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1243	1216	1246	1205
Mar	1238	1213	1238	1202
May	1255	1239	1255	1219
Jul	1273	1265	1272	1241
Sep	1293	1276	1293	1264
Dec	1333	1321	1318	1309
Mar	1368	1361	1357	1340

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	124.30	124.44	124.10	122.90
Mar	124.95	126.63	124.60	123.60
May	124.28	126.20	125.40	124.90
Jul	125.65	126.59	125.75	124.90
Sep	126.10	128.20	125.75	125.75
Dec	127.00	129.50	0	0
Mar	127.00	129.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	9.29	8.90	9.29	9.00
Mar	9.73	9.33	9.75	9.45
May	9.80	9.15	9.86	9.21
Jul	9.58	9.15	9.41	9.10
Oct	9.38	9.00	9.10	9.00
Jan	8.58	8.25	0	0
Mar	8.95	8.55	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	55.78	54.59	54.98	53.40
Mar	55.66	54.57	54.50	53.30
May	55.15	54.85	54.75	53.50
Jul	54.00	54.85	54.00	53.50
Oct	54.60	55.60	54.40	53.90
Dec	54.60	55.80	55.30	54.90
Mar	55.20	54.75	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	180.80	181.60	181.70	180.60
Jan	174.00	173.40	173.20	173.15
Mar	171.95	170.30	172.00	170.90
May	169.95	167.85	171.20	169.00
Jul	168.75	168.45	170.25	169.00
Sep	164.05	162.80	163.00	162.00
Nov	164.05	162.80	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Oct 11	Oct 10	mnth ago	yr ago
1863.5	1863.9	1874.1	1669.1

DOW JONES (Base: Dec. 31 1974 = 100)

Spot	133.02	132.91	136.50	127.23
Futures	137.45	137.45	133.78	132.76

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	790/2	793/4	795/0	789/0
Jan	803/4	805/6	807/4	800/0
Mar	811/6	814/2	815/4	811/0
May	812/0	815/2	815/2	810/4
Jul	805/4	808/0	810/4	806/0
Aug	797/0	795/0	799/0	795/0
Sep	749/0	749/0	752/0	746/0
Nov	719/4	719/4	722/0	717/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Oct	23.69	23.87	23.80	23.65
Dec	24.09	24.04	24.23	24.03
Jan	24.26	24.31	24.43	24.20
Mar	24.86	24.82	24.96	24.80
May	25.22	25.21	25.30	25.20
Jul	25.48	25.40	25.55	25.40
Aug	25.40	25.40	25.55	25.35
Sep	25.42	25.43	25.45	25.35

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Oct	252.4	253.0	254.0	251.8
Dec	254.8	255.5	256.5	254.0
Jan	254.1	255.2	256.0	253.8
Mar	251.7	252.7	253.5	251.0
May	248.2	248.6	249.0	247.5
Jul	245.2	245.5	246.5	244.5
Aug	239.5	240.5	241.0	239.0
Sep	233.2	235.5	237.5	233.5
Oct	228.2	228.5	229.0	227.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	289/2	289/4	290/6	288/4
Mar	298/2	298/2	300/2	297/6
May	302/2	302/4	303/2	301/4
Jul	298/2	298/4	302/0	298/0
Sep	278/0	277/4	278/0	277/4
Dec	262/4	262/4	263/4	262/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	434/6	435/4	438/4	431/4
Mar	438/2	437/0	439/4	433/4
May	418/0	418/0	414/6	412/0
Jul	387/0	384/6	388/4	381/4
Sep	377/6	375/0	377/0	374/4
Dec	386/0	384/0	387/0	385/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	72.62	72.30	72.75	72.25
Dec	75.00	74.37	75.30	74.60
Feb	74.62	74.27	74.90	74.40
Apr	75.60	74.95	75.85	75.30
Jun	74.65	73.92	74.70	74.10
Aug	72.20	71.50	72.25	71.80
Oct	71.60	70.95	71.60	71.30
Dec	71.60	71.00	71.70	71.60

LIVE HOGS 30,000 lb; cents/lb

	Close	Previous	High/Low	
Oct	40.20	40.20	40.45	39.85
Dec	42.00	41.77	42.25	41.52
Feb	45.57	45.32	45.85	45.25
Apr	44.15	44.05	44.40	44.00
Jun	48.40	48.22	48.75	48.20
Jul	48.40	48.40	48.60	48.30
Aug	47.60	47.80	48.15	47.60
Oct	44.55	44.55	44.85	44.50

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	48.05	48.00	48.40	47.55
Mar	48.05	48.05	48.40	47.80
May	50.12	49.97	50.60	50.00
Jul	52.03	50.75	51.40	50.70
Aug	48.50	48.30	48.90	48.40

WORLD STOCK MARKETS

CANADA

TORONTO

4pm prices October 12

MONTREAL

4pm prices October 12

Total Sales 4,863,788 shares.

INDICES

NEW YORK DOW JONES

	Oct 12	Oct 11	Oct 10	Oct 7	1988 High	1988 Low	Since compilation High	Since compilation Low
◆Industrials	2126.24	2156.47	2158.95	2150.25	2158.95 (10/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.97	90.07	90.22	89.94	91.25 (3/3)	86.12 (4/1)	-	-
Transport	908.81	924.47	924.03	929.06	929.06 (7/10)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	183.62	185.75	186.58	187.47	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

◆Day's High 2146.34 (2164.83) Low 2113.44 (2137.89)

STANDARD AND POOR'S	Oct 12	Oct 11	Oct 10	Oct 7	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite‡	273.98	277.93	278.24	278.07	278.24 (10/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials (latest)	314.96	319.62	319.72	319.17	319.72 (10/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	25.88	26.20	26.37	26.36	26.37 (10/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	154.77	156.77	156.96	156.81	156.96 (10/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	301.91	303.77	304.09	303.82	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	382.55	385.28	385.49	385.67	394.77 (18/7)	331.97 (12/1)	455.26 (26/8/87)	54.87 (31/10/72)

	Oct 7	Sep 30	Sep 23	year ago (approx.)
Dow Industrial Div. Yield	3.60	3.66	3.70	2.78

	Oct 5	Sep 28	Sep 21	year ago (approx.)
S & P Industrial div. yield	3.18	3.21	3.19	2.40
S & P P/E ratio	13.13	12.98	13.03	23.20

TRADING ACTIVITY †Volume Millions

	Oct 12	Oct 11	Oct 10
New York	154.840	140.900	125.668
Amex	8.804	8.156	7.541
OTC	(u)	120.986	96.826

NEW YORK	Oct 12	Oct 11	Oct 10
Issues Traded	1,934	1,926	1,892
Rises	386	592	680
Falls	1,108	805	710
Unchanged	445	529	502
New Highs	18	31	49
New Lows	24	16	13

CANADA

TORONTO	Oct 12	Oct 11	Oct 10	Oct 7	1988 High	1988 Low
Metals & Minerals	2855.1	2889.0	(c)	2913.7	3226.5 (5/7)	2238.7 (8/2)
Composite	3367.5	3390.7	(c)	3398.4	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1673.48	1690.22	(c)	1694.87	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Kroger WI	4,377,400	8⅝	+ ½	IBM	1,811,900	117¼	- 1
Phillips Pet	4,236,988	22	+ 1⅜	Best Prod	1,636,400	26⅝	- ⅛
Kroger	4,030,500	56	+ 1	Walgreen	1,459,500	36¼	+ 1¼
Motorola	3,081,300	39¼	- 2⅞	Maytag	1,365,500	26½	- 1
AT&T	1,971,600	26½	- ⅜	Pillsbury	1,304,500	56⅞	+ ⅛

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

	Oct. 12	Oct. 11	Oct. 10	Oct. 7	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1544.4	1543.5	1534.6	1525.8	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	721.5	722.4	710.1	704.8	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	207.4	206.50	205.90	204.70	207.40 (12/10)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/80)	5319.50	5340.00	5338.70	5326.20	5340.00 (11/10)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	234.89	236.18	235.51	233.93	236.18 (11/10)	180.68 (4/1)
FINLAND						
Unitas General (1975)	678.1	674.7	671.7	676.5	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	376.6	383.2	384.9	382.6	384.9 (10/10)	251.3 (29/1)
Ind. Tendance (31/12/87)	144.6	145.4	148.2	147.8	148.4 (5/10)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	520.93	525.93	529.13	522.57	529.13 (10/10)	396.40 (29/1)
Commerzbank (1/12/53)	1577.80	1592.90	1602.80	1582.20	1602.80 (10/10)	1207.9 (29/1)
DAX (30/12/87)	1257.94	1271.31	1286.93	1269.36	1286.93 (10/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2551.86	2571.61	2566.42	2478.87	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	563.95	564.89	557.17	558.35	564.89 (11/10)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	27409.37	27469.60	(c)	27258.27	28425.38 (5/8)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2116.40	2113.97	(c)	2101.95	2253.10 (2/8)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	277.4	281.2	281.5	277.4	284.8 (9/8)	205.7 (4/1)
ANP-CBS Industrial (1970)	242.7	246.5	248.2	245.8	248.2 (10/10)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	392.47	395.13	394.46	393.48	423.64 (21/7)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1004.18	1018.54	1015.90	1003.27	1177.87 (8/8)	833.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1344.0‡	1366.0	(c)	1339.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1783.0‡	1785.0	(c)	1759.0	1785.0 (11/10)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	(c)	285.09	284.54	282.79	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3176.10	3177.70	3200.30	3168.70	3200.30 (10/10)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	574.2	576.40	576.40	573.40	576.40 (10/10)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	454.3	451.2	448.6	465.2 (15/6)	401.0 (21/1)

**Saturday Oct. 8: Japan Nikkei (c) and TSE (c)

‡ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX - 1,000 JSE Gold - 255.7 JSE Industrials - 264.3 and Australia, All Ordinary and Mining - 500; (c) Closed, (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday 12 October 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Osaka Gas	45.0m	780	+16	Nippon Mining	22.6m	716	-15
Japan Line	33.5m	409	-15	Keisei Electric Rail	20.7m	3,000	-80
C.Itoh	25.6m	910	+20	Marubeni	18.5m	880	+18
Nippon Steel	22.8m	774	-18	Nippon Yakin Kogyo	18.3m	1,040	+10
Sumitomo Metal	22.7m	728	-12	Penta-Ocean Constr	15.9m	999	+44

4pm prices October 12

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 41

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
48½	16½	PR Cem	.30e	1.2	6	39	42¾	42½	42½	− ½
21½	17¾	PugetP	1.76	9.0	9	500	19½	19¼	19½	
9	8¼	PHIC8	.85	10.		87	8¼	8⅛	8¼	
10⅛	8⅝	PIGIT	n1.01	11.		630	9½	9⅜	9⅜	
10½	8⅞	PMIIT	n1.03	11.		299	9½	9⅜	9½	
10⅛	8⅞	PMIT	n 1.10	11.		820	9⅝	9½	9½	+ ⅛
10⅛	9⅛	PPrIT	n1.14	12.		2011	9¾	9½	9⅝	− ⅛
6¾	3⅝	Pyro				727	6	5¾	5⅞	
24⅛	7	QMS			12	197	7⅝	7½	7½	− ⅛
3	⅝	Quantel			2	180	⅞	⅞	⅞	− 1-16
58	51¾	QuakrO	1.20	2.2	17	3606	55⅝	54⅛	54⅝	− 1⅛
27⅛	12⅞	QuakSC	.80	3.9	30	585	20⅝	19½	20⅝	+ ⅞
14¼	4¼	Quanex	.05e	.6	10	372	13¼	13	13⅛	
		Quanx pf				94	25½	25⅛	25½	
105	49	Quantm	2.20	2.2	11	1171	101½	100	101½	− ¾
10⅝	7½	QstVl	1	9.4		151	10⅝	10½	10⅝	+ ⅛
9½	4⅞	QstVC	.77e			409	8¾	8½	8⅝	
38½	29½	Questar	1.88	5.6	16	32	32½	32¼	32¼	
21¼	10	QkRelly	.24a	2.0	6	35	11⅞	11¾	11¾	− ⅛

— X-Y-Z —

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
70¾	50	Xerox	3	5.2	16	2747	58⅞	57⅞	58⅛	− ¾
50¾	47	Xerox pf4.13		8.6		2	47¾	47¼	47¾	− ⅛
36	19¼	XTRA	.72	2.2	14	69	33¼	33	33	− 1
39⅞	17½	Yorkin			15	78	32½	32¼	32¼	
4⅛	2¼	Zapata				156	2⅜	2⅜	2⅜	− ⅛
32½	19½	Zayre	.40	1.6	172	6962	25⅞	25⅝	25⅞	− ⅛
18⅞	8¼	Zemex	.40	2.7	12	189	15	14⅞	15	+ ⅛
69	10	ZenithE				2818	22⅛	21⅝	21⅞	− ⅛
10⅞	9½	Zenin n	.39e	3.8		221	10⅛	10	10	− ⅛
7	1	viZenLb				348	2	1⅞	1⅞	− ⅛
21⅛	12¼	ZenNtl	.80b	4.5	8	74	18⅛	17⅞	17⅞	− ⅛
16⅝	11⅛	Zero	.40	2.6	14	62	15½	15¼	15½	
25	15	Zurnin	.80	2.5	17	430	27¾	27⅜	27⅝	+ ⅛
11⅛	7⅞	Zweig	1.04	10.		214	10½	10¼	10⅜	
10⅛	10	ZweigT n				1832	10⅛	10	10	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices October 12

OVER-THE-COUNTER

Nasdaq national market, 3pm prices October 12

FINANCIAL TIMES Thursday October 13 1988

AMERICA

Dollar doubts prompt Dow decline

Wall Street

EQUITIES tumbled yesterday amid nerves about the reported bankruptcy of a Japanese real estate company and worries about today's US trade figures, which caused substantial selling of the dollar, *writes Janet Bush in New York.*

After falling more than 30 points within the first two hours of trading, the Dow Jones Industrial Average stabilised in quiet afternoon dealings and closed 30.23 points lower at 2,126.24. Volume was only moderate, however, with 154m shares changing hands.

Shares started falling as soon as the market opened in response to a sharp drop in the dollar which began in the Far East and continued in European and US trading. The dollar fell during the morning in New York to below Y129, compared with an opening level of Y131.12 in Tokyo. By late afternoon in New York, the US currency was quoted at Y129.05 and DM1.8345.

There appeared to be no single reason for the dollar's break below a major chart support level of Y130, although one factor appeared to be a suspicion that the US may not be strongly committed to supporting the dollar.

Helping fuel these fears was news of a letter sent to Mr Nicholas Brady, the new US Treasury Secretary, by Senator William Proxmire, chairman of the influential Senate Banking Committee, asking him for his views on the potentially negative impact of the dollar's rally this year on the US trade balance.

Mr Brady is due to deliver a major report on international economic policy later this month and foreign exchange dealers are clearly concerned that he may hint that a fall in the dollar would be desirable.

This outbreak of speculation about US currency policy in connection with continuing efforts to cut the trade deficit came just a day before the latest US trade figures for August, due for release today. Forecasts vary widely but there is general agreement that the deficit will have widened in August with estimates centring on \$11.5bn, compared with \$9.5bn in July. Rumours surfaced in Europe that the deficit could be worse than most forecasts had suggested at \$12bn.

A bad trade figure could have considerable impact on a dollar which is looking at its most vulnerable for some time.

The equity market was also hit by concerns about a Japanese press report that Nihon Tochi, the Japanese real estate company, had filed for bankruptcy. Rumours were circulating US markets that Nihon Tochi was liquidating a \$750m portfolio of US stocks. Although a leading Japanese securities house in New York said it believed these rumours were unsubstantiated, the equity market was extremely nervous.

Among featured stocks was Holly Farms which surged \$6⅞ to \$49⅞ in the wake of news that Tyson Foods had offered to take over the company for \$45 in cash and a quarter of a Class A common share for each share of Holly Farms.

Kroger added \$1 to \$56 having fallen \$2⅝ on Tuesday after Kohlberg Kravis Roberts withdrew its bid for the company.

Motorola slumped \$2⅞ to \$39⅝ as the market responded with disappointment to the announcement of its third quarter results. The company reported net income of 67 cents a share, up from 54 cents a year earlier but still below analysts' forecasts.

Whirlpool fell \$⅞ to \$25⅞. It announced net earnings in its latest quarter of 45 cents a share compared with 63 cents a share a year earlier.

First Boston was unchanged at \$49⅞ after the announcement of its results which amounted to net earnings of \$1.12 a share compared with \$1.15 a year earlier. The securities house, which is to go private in a merger with CSFB, saw a drop of 30 per cent in its investment banking activity in the latest quarter but a sharp improvement in its own account trading.

Texas Air dropped \$1⅛ to \$14⅞. The company announced yesterday that it was selling its Eastern Airline shuttle to Mr Donald Trump, the New York real estate developer, and would make a \$240m profit on the sale. However, Mr Frank Lorenzo, chairman, said he thought a sale of the rest of Eastern to Mr Carl Icahn was unlikely.

Canada

DECLINING base metal, gold and industrial stocks deepened Toronto losses in moderate trading. Investors remained nervous ahead of Thursday's release of the US August trade deficit.

The composite index dropped 23.2 to 3,367.5 as declines outnumbered advances by 465 to 277 on turnover of 25.2m shares.

The energy index was slightly lower on investors' concerns that the oil price increase would not continue.

SOUTH AFRICA

GOLD shares declined in Johannesburg, as the bullion price stuck at its lower levels in spite of a weaker dollar.

Sasol, the oil-from-coal producer, gained 10 cents to R7.10. The company said it was planning to establish a new coal mine in eastern Transvaal for about R500m.

ASIA PACIFIC

Firm yen partly offsets NTT effect

Tokyo

THE YEN'S sharp rise against the dollar helped share prices recover to some extent in late trading after they had fallen throughout the day under pressure from the forthcoming issue of NTT shares, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei average, which was down 242.46 in the early afternoon, managed to recoup some of its losses and closed 50.23 lower at 27,409.37 in thin turnover. The day's high was 27,456.79 and the low 27,218.80. The TOPIX index of all listed stocks edged up 2.43 to 2,116.40.

Declining issues outnumbered advances by 470 to 373, with 170 issues unchanged. Volume remained very low at 665m shares compared with 653m on Tuesday, reflecting the market's low energy level.

In later London trading, Japanese shares dropped, with the ISE/Nikkei 50 index losing 9.98 to 1,735.50.

Next week's planned issue of 1.5m more shares of NTT, the telecommunications giant, continued to weigh heavily on the Tokyo market, with the stock itself falling below Y2m for the first time since February 19, 1987. It closed Y10,000 lower at Y1.9m.

Investors sense demand is weak for the new shares and are selling existing holdings with the intention of buying the new shares, to be offered at a 3½ per cent discount to the October 19 closing price, analysts say.

Share prices began losing ground early in the day amid a general lack of enthusiasm. Analysts said that, when the dollar fell below Y130 in mid-afternoon, institutional investors were encouraged to take an interest in only those stocks that tend to benefit from a strong yen.

"Nobody is into serious buying," said one analyst at Daiwa Securities.

The lack of volume affected the large-capital stocks that were expected to be market leaders. There is just not enough trading volume to buy into large capital steels and shipbuildings, according to Mr Shigeru Akiba of UBS-Phillips & Drew. However, he predicted that large-capital issues and stocks related to the land and leisure themes would come back into favour, as these areas are of continuing interest to investors.

Meanwhile, steels generally lost ground. Nippon Steel shed Y10 to Y774, Kawasaki Steel Y4 to Y396 and Sumitomo Metal Y12 to Y728. NKK was the exception but added only Y7 to Y780.

Shipbuilders were also weaker. Mitsubishi Heavy Industries declined Y15 to Y960 while Ishikawajima-Harima Heavy Industries lost Y20 to Y1,050. Japan Line was the second most heavily traded issue at 33.5m shares, falling Y15 to Y409.

Another declining stock was Konica, the country's second largest photographic film producer, which fell Y40, or 4.2 per cent, to Y910 amid reports that its leading shareholder, Nihon Tochi, was in serious financial difficulties.

The strength of the Japanese currency helped sectors that usually benefit from a higher yen, notably utilities. Osaka Gas, which was the most heavily traded issue yesterday at 45m shares, advanced Y16 to Y780. Tokyo Gas added Y10 to Y1,390 and Tokyo Electric Power increased Y110 to Y6,350.

Trading companies, which have attracted interest on expectations that improved relations with the Soviet Union will create more business, were also in favour. C.Itoh was the third most heavily traded issue at 25.63m shares, adding Y30 to Y910. Mitsui and Co advanced Y19 to Y910 while Marubeni rose Y15 to Y680.

Speculative issues such as Nichias, a manufacturer of ceramic construction materials, continued to attract buying interest, adding Y52 to Y978.

The market in Osaka also benefited from the strong yen and the OSE average closed up a modest 1.49 at 25,626.12. Volume remained thin at 54m shares compared with 53m on Tuesday. As in Tokyo, the higher yen helped utility companies firm and Osaka Gas advanced Y24 to Y764.

Roundup

THERE was little cheer in Asia Pacific markets yesterday, with shares ending generally easier in lacklustre turnover.

AUSTRALIA found little guidance from trends in stock and commodity markets overseas and share prices finished narrowly mixed, with the All Ordinaries index inching up only 0.9 to 1,544.4 in fairly thin trading.

The bullion price fell in New York overnight but recovered during Australian trading, while Tokyo's late rebound helped offset Wall Street's earlier weakness, leaving no clear pointer for Australian shares.

"At this stage the market seems happy to wait for further direction which will hopefully come with the release of the US trade deficit figures tomorrow," said brokers BZW Meares.

In generally quiet industrials, Elders IXL saw active trading, edging up 1 cent to A\$3.40. Option-related buying added to turnover in banking stocks, where Westpac rose 4 cents to A\$5.90 and National Australia shed 6 cents to A\$6.72.

HONG KONG closed lower after three rising sessions, and turnover fell to HK\$722m from Tuesday's HK\$1.04bn.

The Hang Seng index finished 19.75 lower at 2,551.86 as investors appeared to be reassessing the market amid official signals that higher interest rates could be on the way.

If the index could hold above 2,550 in the next few days, it might then test territory beyond 2,600, according to chartists.

Blue chips continued to top the active list with Hongkong Bank gaining 5 cents to HK\$6.40. Hongkong Land, Hongkong Telecom and Swire "A" all eased 10 cents to HK\$8.25, HK\$5.20 and HK\$17.70 respectively.

Henderson Land was unchanged at HK\$5.25 before announcing a 68 per cent rise in net profit to HK\$1bn for the year ending June 30.

SINGAPORE fell across the board because of a lack of follow-through buying support and extensive profit-taking after four consecutive days of gains.

The Straits Times industrial index fell 14.36 points to 1,004.18 in listless trading.

Turnover totalled 19.4m shares, barely changed from Tuesday.

TAIWAN saw prices plunge for the 11th consecutive session, sending the weighted index to its lowest level in two months. It lost 167.83 to 6,732.08.

W German bourse faces test caused by Klöckner

By Alison Maitland

THE HUGE potential losses of Klöckner and Co, the unlisted trading and engineering group, are likely to prove a short-term depressant on the West German stock market, analysts in London said yesterday.

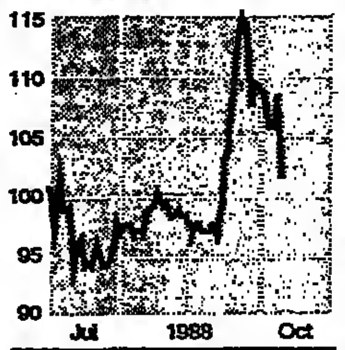
Any longer impact will depend on the rescue set up by Deutsche Bank to keep the company operating. Deutsche Bank's share price fell DM10.70 to DM527.30 on the news.

"It couldn't have come at a worse time in the sense that the market was at new highs for the year and people were becoming a little nervous so it gave an excuse to take profits," said Mr Brian Wilkinson of Citicorp Scrimgeour Vickers.

However, he said the effect on the market could be limited unless the losses endangered recoveries at Klöckner-Werke, the steel producer, and Klöckner-Humboldt-Deutz, the machinery company. Klöckner and Co has a direct stake of 18 per cent in Klöckner-Werke and about 40 per cent of KHD. If it were forced into distress sales of the holdings, it would bode ill for their share prices.

Kloeckner-Werke

Share price (DM)



Yesterday Klöckner-Werke lost DM7 to DM101.50. It suffered an extraordinary loss of DM389m last year and has lagged the market until the last few weeks. KHD, slowly turning around from big losses, fell DM7.50 to DM131.50.

Mr Tim Dawson of BZW said the outlook for the market was still positive. "If stocks do fall on the back of this, people will look to snap up bargains."

EUROPE

Spectre of US trade data casts shadow on bourses

NERVOUSNESS about corporate developments and the US trade deficit figures due today left most leading bourses mixed to lower yesterday, *writes Our Markets Staff.*

FRANKFURT was shaken by the news that Klöckner and Co, the trading and holding company, is facing possible losses of DM600m to DM700m in forward oil contracts.

The market was already in slightly nervous mood over today's US trade figures, while the downtrend in the dollar and overnight losses on Wall Street had not helped. So the suspension of Klöckner dividend rights certificates on the "regulated", or second-line, market sent shares downward.

The FAZ index at midsession was off 5 at 520.93, while the DAX real time index of 30 blue chips ended 13.37, or 1 per cent, lower at 1,257.94. Volume in domestic shares totalled a moderate DM3.37bn.

Falling stocks not associated with Klöckner included Siemens, which declined as speculation continued over a possible cut in its dividend. The company said a dividend cut was unlikely but active selling drove its share price down DM6.50 to DM479.50.

Retailer Asko eased DM1 to DM1,009 before announcing a one-for-two rights issue at DM730 and an increase in its dividend on ordinary stock to DM15 from DM10 last year.

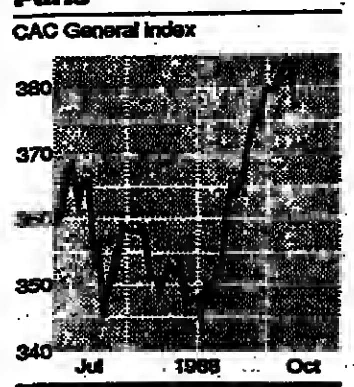
PARIS ended narrowly mixed as profit-taking continued in most stocks, but takeover and stake-building speculation pushed up volumes in a few others. The OMF 50 index edged up 1.22 to 384.75 and the CAC General index, based on opening prices, was down 6.6 at 376.6. "The market's fairly quiet," said one analyst. "It's slowly losing its breath...I fear that with the US elections in November it's going to be difficult to have another rally up to then."

French monthly inflation figures are due today, as well as the US trade deficit figures, which also weighed on sentiment.

Canal Plus ended FFr27 lower at FFr585 on 15,700 shares traded. The state-controlled savings bank, Caisse des Dépots, said it had taken a 5 per cent stake.

Paris

CAC General index



Perrier was up FFr25 at FFr1,160 as 23,000 shares changed hands in further speculative activity.

De Dietrich, a heavy engineering and consumer durables group, rose FFr54 to FFr1,799; the company said that this might be the beginning of a hostile takeover bid. Paper making company Aussedat-Rey added FFr10 to FFr405 amid further talk of a takeover or stakebuilding, with the Kuwait Investment Office a rumoured party.

Navigation Mixte moved FFr27 higher to FFr1,235 on 268,000 shares traded amid more rumours of a takeover attempt or stake-building by its subsidiary Via Banque.

MILAN ended mixed to lower after active early trading. The Comit index eased 0.94 to close at 563.95.

Attention was focused on the parliamentary vote on reform of the secret voting system, on which the future of the Government could hang.

Investors continued to be optimistic that the reform would be passed last night, but doubts have kept daily turnover to around the L200bn mark, below last week's L260bn average.

Several shares regained ground after an early retreat as confidence grew. One analyst said: "I think a number of stocks later recovered to earlier fixing levels on the back of news from Rome on the voting arrangements."

Blue chips were generally lower. Fiat fell L20 to L9,800, Generali L260 to L42,090 and Olivetti ordinary L31 to L9,82[illegible]. Most were said to ha[illegible] improved in the after-market.

Pirelli Spa moved up L5[illegible] close at L2,899 after an optimi[illegible]tic forecast that sales would [illegible] up 10 per cent this year.

AMSTERDAM ended a qui[illegible] day lower on the back of fal[illegible] in international markets a[illegible] the weaker dollar. Investo[illegible] were waiting for the outco[illegible] of US trade figures, due toda[illegible]

The CBS index dropped 1 points to a day's low of 99.8.

All blue chips traded low during the day, dippin[illegible] sharply after Wall Street weaker opening. Turnover wa[illegible] thought to be lower than Tue[illegible]day's Fl 271m.

STOCKHOLM trading ende[illegible] steady to lower with a la[illegible] burst of activity. A few compa[illegible]nies accounted for a larg[illegible] amount of turnover, whic[illegible] rose to almost SKr400m.

The market was waiting fo[illegible] the US trade balance figure[illegible] due to be released today, an[illegible] for Swedish inflation data. The Affärsvärlden index slipped [illegible] to 933.6.

Alfa-Laval B free lost SKr[illegible] SKr415. The engineering grou[illegible] which has seen its share pric[illegible] rise significantly in recen[illegible] weeks, announced an eigh[illegible] month profit rise of 27 per cen[illegible] to SKr525m on Tuesday. The company said yesterday i[illegible] hoped to conclude its bigges[illegible] ever takeover within days.

ZURICH closed slightly lower in moderate trading o[illegible] the lower dollar. The negativ[illegible] trends on Wall Street and in Tokyo also dampened marke[illegible] sentiment.

The Crédit Suisse genera[illegible] index lost 0.7 to 491.9.

HELSINKI gained ground in quiet trading for the secon[illegible] successive session after abou[illegible] two weeks of falls. The Unitas all-share index rose 3.4 to 678.[illegible] amid optimism about forthcoming corporate results.

Kansallis-Osake-Pankki free shares fell FM0.4 to FM53.1[illegible]. The group announced eight-month profits of FM483m.

BRUSSELS closed mixed with a lower bias, influenced by modest losses on Wall Street and feeling that the Belgian market is overbought after recent gains.

● Madrid stock exchange was closed for a holiday.

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY OCTOBER 12 1988					TUESDAY OCTOBER 11 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (91)	141.94	+0.3	121.46	117.30	4.19	141.48	122.17	117.25	152.31	91.16	166.95
Austria (17)	90.22	+0.8	77.21	86.11	2.47	89.54	77.31	86.01	98.18	83.72	101.45
Belgium (63)	124.73	+0.5	106.74	119.65	4.23	124.12	107.17	120.14	139.89	99.14	123.90
Canada (126)	122.51	−0.7	104.83	107.34	3.14	123.37	106.52	108.00	128.91	107.06	130.51
Denmark (39)	136.08	+0.7	116.45	131.09	2.30	135.15	116.70	131.11	136.08	111.42	121.85
Finland (26)	113.54	+0.5	97.16	103.47	1.70	113.01	97.58	103.35	139.53	106.78	–
France (130)	99.73	+0.5	85.34	97.85	3.32	99.21	85.66	98.20	100.71	72.77	102.50
West Germany (102)	81.42	+0.0	69.68	77.70	2.39	81.43	70.31	78.40	81.73	67.78	100.52
Hong Kong (46)	104.41	−0.6	89.35	104.76	4.78	105.08	90.74	105.45	111.86	84.90	152.83
Ireland (18)	138.27	−0.3	118.33	133.49	3.77	138.65	119.72	134.88	144.25	104.60	159.65
Italy (100)	78.19	+0.6	66.91	79.83	2.52	77.75	67.13	80.07	81.74	62.99	95.45
Japan (456)	165.12	+1.9	141.30	134.54	0.55	162.11	139.98	134.24	177.27	133.61	152.71
Malaysia (36)	134.11	−0.5	114.76	138.52	3.07	134.84	116.43	139.64	154.17	107.83	177.20
Mexico (13)	150.76	−0.8	129.01	377.14	1.44	152.03	131.28	380.32	180.07	90.07	385.01
Netherland (38)	104.60	−0.5	89.51	98.78	4.93	105.17	90.81	100.20	110.66	95.23	120.54
New Zealand (26)	72.07	+0.1	61.68	61.38	6.40	72.03	62.20	61.34	84.05	64.42	129.15
Norway (25)	116.06	+0.4	99.31	107.00	2.68	115.57	99.79	107.17	132.23	98.55	181.10
Singapore (26)	116.74	−1.2	99.90	109.32	2.49	118.16	102.03	110.76	135.89	97.99	170.04
South Africa (60)	108.44	−1.2	92.79	95.77	4.50	109.72	94.74	96.90	139.07	98.26	187.44
Spain (42)	144.09	+0.9	123.31	132.47	3.02	142.80	123.30	132.47	164.47	130.73	163.90
Sweden (35)	126.32	+0.7	108.10	117.72	2.43	125.49	108.35	117.68	126.32	96.92	136.20
Switzerland (56)	79.92	+0.7	68.39	76.80	2.20	79.38	68.54	77.26	86.75	74.13	111.00
United Kingdom (322)	131.38	−0.3	112.43	112.43	4.67	131.76	113.77	113.77	141.18	120.66	158.73
USA (582)	111.89	−1.4	95.75	111.89	3.57	113.49	97.99	113.49	113.64	99.19	124.88
Europe (1013)	108.12	+0.0	92.52	98.66	3.75	108.07	93.32	99.52	110.82	97.01	128.14
Pacific Basin (681)	161.71	+1.7	138.38	132.52	0.77	158.94	137.24	132.26	172.26	130.81	153.13
Euro-Pacific (1694)	140.29	+1.2	120.06	118.94	1.70	138.62	119.69	119.10	147.53	120.36	143.19
North America (708)	112.45	−1.4	96.23	111.63	3.54	114.00	98.44	113.17	114.16	99.78	125.18
Europe Ex. UK (691)	93.55	+0.3	80.06	90.27	3.00	93.25	80.52	90.80	93.55	80.27	109.14
Pacific Ex. Japan (225)	120.67	−0.1	103.26	107.28	4.37	120.76	104.28	107.56	128.27	87.51	158.54
World Ex. US (1893)	139.37	+1.1	119.27	118.44	1.77	137.82	119.00	118.63	146.49	120.26	143.37
World Ex. UK (2153)	128.45	+0.3	109.92	116.54	2.12	128.01	110.53	117.14	131.77	111.77	133.98
World Ex. So. Af. (2415)	128.82	+0.3	110.24	116.28	2.34	128.44	110.91	116.95	132.39	113.26	135.85
World Ex. Japan (2019)	111.26	−0.8	95.21	106.95	3.66	112.18	96.86	108.18	112.43	100.00	128.29
The World Index (2475)	128.70	+0.3	110.13	116.14	2.35	128.33	110.81	116.81	132.38	113.37	136.18

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US \$ Index), 90.791 (Pound Sterling) and 94.94 (Local).

Spanish market closed Oct.12.